PROBLEM CREDIT CARD PRACTICES AFFECTING STUDENTS

HEARING

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

OF THE

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CONTENTS

PROBLEM CREDIT CARD PRACTICES AFFECTING STUDENTS

Thursday, June 26, 2008

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
AND CONSUMER CREDIT,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:02 p.m., in room 2128, Rayburn House Office Building, Hon. Carolyn B. Maloney [chairwoman of the subcommittee] presiding.

Members present: Representatives Maloney, Watt, Moore of Kansas, Hinojosa, Green, Clay, Scott, Cleaver; Biggert, Castle, Jones, and Hensarling.

Chairwoman MALONEY. I call this hearing to order. This hearing, entitled "Problem Credit Card Practices Affecting Students," focuses on the issues that arise in the context of credit card marketing to students, especially college students. I welcome the witnesses, and I thank them very much for being here, and for their testimony.

This hearing is the outgrowth of response to our comprehensive credit card reform bill, the Credit Cardholders' Bill of Rights. At our roundtable last year, and in later discussions, it became clear that many issuers, consumer advocates, and Members share a special concern with students' use of credit cards.

As new entrants to credit, students seem particularly vulnerable. As some of you will recall, in the late 1990's, credit card marketing on campuses became the subject of press reports and controversy. At the request of Congresswoman Louise Slaughter, Congressman John Duncan, and Congressman Paul Kanjorski, the GAO undertook a study of college students and credit cards issued in June of 2001.

I would like to take this opportunity, with unanimous consent, to enter into the record Congresswoman Slaughter's testimony.

The GAO concluded that while credit cards offered students many advantages, there were grounds for concern that college students were more likely than other credit card users to end up with high debts.

As the GAO report found, credit card issuers market intensively to college students. This is not surprising. Students represent new customers who live bunched together, and are thus cost-effective to reach. Students want and often need credit, but may not realize all the consequences of applying for or getting a credit card.

In some cases, schools facilitated the issuers' efforts to market cards to students. In his 2000 book, "Credit Card Nation," Professor Manning of the University of Rochester documented arrangements between universities and colleges and issuers, under which the schools received money from the issuers for the right to market credit cards on campus to the students. Manning found that these agreements resulted in payments to the 300 largest universities of some $1 billion.

About 18 States have since passed laws restricting or regulating on-campus marketing by issuers. In addition, many schools have banned on-campus marketing.

But the issue is not resolved. This spring, New York Attorney General Andrew Cuomo announced that his office was conducting a nationwide investigation into whether credit card marketers offered payments or other incentives to colleges in exchange for exclusive access to the institution's students.

Marketing to students often involves offering a reward for applying for a card. In a March 2008 survey, U.S. PIRG listed tee shirts, food, sports toys, caps, mugs, and sodas as commonly offered gifts.

Seven years after the GAO report, major issuers have introduced a number of important policy changes to address the special problems of students and credit cards. For example, American Express says that their Blue for Students card has more stringent limits on the size of credit lines than the normal blue card, and that they do not actively market to students, on campus or otherwise.

Citi's Platinum Select card was acknowledged by Consumer Action for rewarding students based on responsible credit behavior, and was a top pick for best student credit cards, as reported in SmartMoney.com in August.

Bank of America says it caps students' available credit at $2,500, and does not raise students' interest rates retroactively for any reason.

I applaud these and similar efforts which represent best practices consistent with the standard principles for voluntary action that resulted from the roundtable on credit cards I convened last year. But the question is, are voluntary efforts enough? Will the force of competition drive those who want to move to best practices back to doing less? And, ultimately, what is the best way to ensure that students become responsible users of credit?

In fact, studies since the GAO report show that credit card debt held by students is rising. Using data from the Federal Reserve survey of consumer finance from 2004 and 1989, the nonpartisan organization DEMOS calculated that young adults between ages 18 and 24 have 22 percent higher credit card debt than their peers had in 1989.

Similarly, studies conducted by Nellie Mae show a significant rise in credit card usage among students. A 2005 report done by Nellie Mae of students in college found that 76 percent of undergraduates had a credit card, as opposed to 67 percent in 1998, that 43 percent have 4 or more cards, as opposed to 27 percent in 1998, and that the average balance on student credit cards was over $2,000, up from $1,800 in 1998.

Perhaps of most concern, students' use of credit cards to pay for tuition is also going up, even though Federal student loans are gen-

erally available at lower rates, and on more flexible repayment terms. In the 2001 GAO study, about 12 percent of undergrads said that they used credit cards to pay for tuition. The 2005 Nellie Mae credit report study showed that figure doubling; 24 percent of undergrads used credit cards to pay tuition.

These are the issues we will be looking at. I look forward to the testimony. And I now yield to Mrs. Biggert, for as much time as she may consume.

Mrs. BIGGERT. Thank you, Madam Chairwoman, for holding this hearing to address credit card practices affecting students. I am glad that today we will recognize the success story of students' access to credit. On the other hand, I am also pleased that we will be looking into problems that some students have, ranging from selecting the right credit card to difficulty managing their credit, or a budget, for that matter.

Of course, another related issue, but for another day and another committee, is how the College Cost Reduction Act has caused the student loan market to dry up. This fall, more students may find their credit card a financial life preserver, unless we fix some of the provisions of that other bill.

But today it is important that we look into an inclusive activity among colleges and universities or their employees and credit card companies. Some disturbing studies indicate that such activities have led to unfair marketing practices and reduced card competition on campuses. Institutions of higher education should be safe harbors for students to learn and to grow. This should include educating students about credit, how to use it, and most importantly, how to use it responsibly.

Like advisors that steer students away from the wrong class, I think it's important that students are advised on matters of finance, and steered away from the wrong financial product, whether it be a credit card, a student loan, or other line of credit.

It is important that we help students, as well as all young people, understand the importance of establishing credit and a good credit record at a young age. It is the financial foundation on which they will build their future.

Unfortunately, starting off on the wrong foot seems to be a trend among some college students, who first look at the free apparel, a tee shirt or a coupon for free food, before looking at the interest rate or payment terms of a credit card. And that is a problem.

Students need to understand that there is no such thing as a free lunch. We know that the U.S. financial literacy rates are low. Courses in personal finance and economics are not a top priority, compared to English, math, science, and history. That is a problem, too. Personal finance and economics should be a top priority for colleges and universities, technical schools, secondary schools, students, student governments, and organizations.

And, some would argue, for Members of Congress, as well. I don't think my colleagues would disagree with me when I say that some Members could use a little Econ-101. But I digress.

The government, colleges and universities, credit card companies, and our students need to work together to strike the right balance between consumer education and fair and transparent credit card marketing. How we accomplish that goal, through legislation, regu-

lation, competition, private sector innovation, financial education, or a combination of these, is what brings us here today.

I believe that today's witnesses will reveal how financial education can and should play one of the biggest roles in this effort. My goal is to promote financial education on college campuses, so that students are armed with the financial tools that they need to use credit wisely, while not cutting off students' access to credit.

College students have greater access to credit, access to cheaper credit, and access to financial education today than ever before. So I hope that no action Congress takes will reverse that positive trend.

With that, I look forward to hearing from today's witnesses, and yield back the balance of my time.

Chairwoman MALONEY. Thank you. I yield 4 minutes to Congressman Cleaver, who has his own bill on this very important subject.

Mr. CLEAVER. Thank you, Madam Chairwoman, and I would like to express appreciation to you for all of the work that you have done on this issue. And I am very much appreciative of the opportunity to participate in this hearing.

The impact of credit cards on the lives of minors and students is a particular focus of mine, and I am pleased that we are coming together today for the opportunity to discuss it.

In March of 2007, Congressman Udall and I introduced H.R. 1461, the Credit Card Accountability Responsibility and Disclosure Act of 2007. This legislation, important as far as we were concerned, included a provision which enumerated the responsibilities which credit card issuers must undertake in order to issue credit cards to minors.

I believe that this is extremely important because we, as a Nation, cannot allow young people to go into the kinds of debt that they are experiencing, because I can foresee a similar problem with credit cards that we have had with subprime loans. I will talk more about that as we go along.

I read in my hometown newspaper, the Kansas City Star, that according to the April 9th JumpStart survey, high school seniors correctly answered just under one-half of the questions on a financial literacy test. This shows that minors are not getting enough financial literacy education. And, thus, giving them credit cards without the kinds of knowledge that they need is, I think, doing a great disservice to them.

What we are saying is that they must have a steady and substantial income with which to pay off the credit card debt if they are issued a credit card. And, of course, if a minor is legally emancipated, he or she only has to prove that they can, in fact, pay that credit card debt.

Now, I want to get into some serious discussion with our panelists, and I appreciate them coming. I need to add one other, I think, important fact.

From one perspective, I think that it is reasonable and we are somewhat justified in seeing that college students who work have an opportunity to get credit cards. I think it's important to understand that 55 percent of students report that they work part-time in college; 45 percent of the students who are in college today do

not work at all. And credit card issuers must disclose the terms of an agreement, and they all who are represented here today will say they do that.

But according to the 2006 GAO report, increased complexity in rates and fees heighten need for more effective disclosure to consumers. Some of these statements are written in a 27th grade language. And so let's take, for a moment, if I graduate from elementary school, middle school, high school, get a BA degree, go to seminary, and then come out and get a Ph.D., I will still have at least 3 years to go before I reach the 27th grade. And we are saying that these college students, many of them 18 or 19 years old, ought to be given credit cards.

I think that this is a step in the wrong direction. Many of these students are going to get out of college, end up in the same situation with the subprime individuals, and they're going to find that they cannot pay their debts. It is a tragedy waiting to happen. I have seen it happen in my own family with my own son, who has no business having a credit card. He barely has business having cash.

And I think it is doing enormous damage for us to come to the conclusion that we can just send out credit cards because college students may be in the higher-income levels of society. I think it is wrong, and I think we have to put some stops to it today.

I appreciate it, and I yield back the balance of my time.

Chairwoman MALONEY. The Chair recognizes Mr. Hensarling for 5 minutes.

Mr. HENSARLING. Thank you, Madam Chairwoman. As I look upon the title of today's hearing, "Problem Credit Card Practices Affecting Students," I am just curious if I will see a hearing one day, "Solution Credit Card Practices Affecting Students," because as I observe the market, the ability of students to have access to credit cards creates a whole lot more solutions than it does problems.

Now, I have seen through this hearing that we will hear genuinely sad tales of lives that have been significantly harmed by abusive credit cards. I assume these tales will be true, I assume they will be sad, and I assume we should pay very careful attention to them.

But I am also curious during this hearing whether or not we will hear tales of students who: but for access to a credit card, could not pay their tuition; but for access to a credit card, could not pay for their books; but for access to a credit card, could not pay for their room or board; but for access to a credit card, could not fly home during the holidays; and the list goes on and on.

I have no idea why, but when I was a sophomore at Texas A&M University, some credit card company decided that I was worthy of a credit card. They sent me a mail solicitation. I didn't seek the card. They sent it to me, and I was glad to receive it. By no stretch of the imagination do I come from a poor family, but I don't come from a rich family, either.

I worked my way through school, bussing tables, working on a loading dock, and being a night clerk. My ability to have that credit card several times helped me with automobile repairs on a very decrepit 1965 Ford Mustang. And I wonder, but for that credit card,

I wouldn't have been able to afford those repairs. But for those repairs, I would not have been able to go to work. Had I not been able to go to work, I could not have completed my college degree.

Now, I have one testimonial for the fact that at least this particular individual was very happy to receive a credit card, and it served a very useful purpose in my educational life.

Whatever the perceived or real illness in the student credit card market may be, I fear that any cure from this committee may prove worse than the illness. Having said that, though, I am, with some interest, interested in viewing further the details of the gentleman from Missouri's bill. And particularly if it deals with credit card issuance to minors, I think it would be very, very worthy of serious contemplation and consideration by this committee, and I am always happy to surprise my friend from Missouri and occasionally say nice things about his legislation.

But again, I think we must remember that every restriction, every limit, every regulation has a high probability of making credit less accessible, less affordable, and more costly, ultimately helping rob people of their educational opportunities. Especially at a time of skyrocketing tuition, when we know that the student loan market is in full retrenchment, I would hope this committee would not consider any legislation where the cure is going to prove worse than the illness, and rob thousands—tens of thousands, perhaps—of their educational opportunities.

And, as an aside, let's remember, with very few exceptions, the people in college are legal adults. They can vote, they can contract, they can marry, and they can serve this Nation in uniform. Are we going to deny them their basic freedom, their freedom of economic opportunity to own a credit card?

I see at least one study, as another aside, that shows that students pay off their credit card bills on time 65 percent of the time, which is better than the adult population, as a whole.

Now, again, I have no doubt that there are abuses in the market by credit card companies. I don't doubt that. I don't doubt that many students do not use credit responsibly. But maybe the solution would be greater financial literacy. Maybe the solution would be more effective disclosure. Maybe part of the solution is personal responsibility, and maybe part of the solution is even increased enforcement of our anti-fraud and deceptive trade practices law. And I suspect that would prove to be far, far more beneficial to our student population than anything else that would deny them access to credit cards, make it less available, more expensive, and help deny them their educational opportunities.

And with that, Madam Chairwoman, I yield back.

Chairwoman MALONEY. The Chair recognizes Congressman Scott for 3 minutes.

Mr. SCOTT. Thank you, Madam Chairwoman. I really appreciate this timely hearing. This issue is very, very important. It is not just a personal financial issue; it is a problem for the entire Nation. Household debt has ballooned from $59 billion in 1980 to $830 billion, as of 2006. Just this statistic alone recognizes the importance and the gravity of the issue.

And nowhere is it more important for us to reign in the abuses of credit cards than with our young people, and especially they are a targeted group.

Now, there are some in the credit card industry that are doing some beneficial things, and correcting this. I want to single out, for example: JPMorgan Chase and Citigroup, as we all know, have made some changes to their business practices, and they should be commended.

But there are far too many deceptive practices that are going on. I would like to just address one important thing about what we can do, because no matter what the industry does, the issue finally boils down to that individual taking responsibility for his or her own decisions. And we have to help that.

We have to help our college students be able to understand the responsibility on their part. That credit card is sort of like a rope that is given to a man to pull himself up. He can either use that rope to pull himself up, or he can use that rope to hang himself. It's up to that individual. And in so many cases, our college students are using this credit card, or rope, to cause damage to themselves.

So, maybe we can focus on a few things. For example, why not bring the parents into this? We are looking at kids who are 16, 17, 18, and 19 years old. They are just at the start of their lives. They don't have the gravity of experience that older people do. And I think that might be an example. Parents have to become more proactive in their students' lives, in their childrens' lives, as far as talking to them about money, and explaining the pitfalls of financial debt and consequences. For every action, there is a consequence to that.

We need to see if there are any programs we can come up with that can be available which parents can utilize to this end. In the final analysis, oftentimes it is the parents who have to bail them out, and pay these bills. So, it makes sense. Are there any specific classes that are going on on the college campuses themselves that relate to financial literacy?

Financial literacy and education is the area that we are not paying enough attention to. And if you are financially literate, if the students are geared—and the parents—to read the fine print, to know what you're getting into before you sign up to these cards—it's not just a card there to get.

And I think that this is very important, Madam Chairwoman. Thank you very much for the opportunity, and we will get into some of this as we move forward.

Chairwoman MALONEY. Thank you very much. And our last speaker is Congressman Castle for 5 minutes.

Mr. CASTLE. Thank you, Madam Chairwoman. In preparation for this hearing, I talked to some of the folks on my staff who attended college more recently than I attended. They all attended college more recently than I did, but I only spoke to a few them about their overall understanding of credit cards.

Each of them knew that credit cards are not free money, but that, indeed, anything bought with a card would have to be repaid. These individuals were taught by their parents or others while in high school about the importance of being responsible with credit.

However, some statistics have suggested that 18-year-olds are more likely to take on more credit card debt than adults over age 22. We cannot make these new credit card users utilize credit more wisely. But I strongly believe that education and consumer choices would greatly benefit students and help reduce the incidence of irresponsible use of credit cards.

I would like to emphasize that credit cards, when used responsibly, can be beneficial to younger adults. For most students, buying books and supplies for one semester can cost more than $500. In addition, some students may have their heart set on graduate school, and building credit through use of credit cards could expand their choices when applying for student loans.

Just like you and me, students may encounter unexpected expenses: car maintenance for commuters; an airplane ticket home to visit relatives; or even a trip to the emergency room for a school athlete. Unlike students, some of us could pay for these expenses immediately, because we have full-time jobs that provide us with a steady income. Students, on the other hand, could benefit from having extra time to make a payment through the use of a credit card, while at the same time building a credit history for their future.

With that, I look forward to hearing the testimony of the panel before us. And, in particular, I commend Mr. Thurman for his efforts in increasing awareness among his peers with regard to student debt in the face of the rising costs of college education. I yield back, Madam Chairwoman.

Chairwoman MALONEY. Thank you very much. We are fortunate today to have six witnesses: Benjamin Lawsky, deputy counselor and special assistant to Attorney General Cuomo; Christine Lindstrom, director of the higher education project of U.S. PIRG; Brett Thurman, president, undergraduate student government, at the University of Illinois at Chicago; Kenneth Clayton, managing director and general counsel, American Bankers Association, card policy council; Erica Williams, policy and advocacy manager, Campus Progress Action; and Brent Neiser, director of strategic programs and alliances for the National Endowment for Financial Education.

Without objection, your written statements will be made a part of the record. You will each be recognized for a 5-minute summary of your testimony. I now recognize Mr. Lawsky, and we will go right down the row.

STATEMENT OF BENJAMIN LAWSKY, DEPUTY COUNSELOR AND SPECIAL ASSISTANT TO THE ATTORNEY GENERAL, OFFICE OF THE ATTORNEY GENERAL (NEW YORK)

Mr. LAWSKY. Thank you very much. I really appreciate your having us here today. Attorney General Cuomo would have loved to have been here. We had a large narcotics take-down scheduled for today, and he couldn't make it. He is back in the State.

Let me start by saying that I am not an expert, like other members of this panel probably are, in the credit card industry. What I can do is tell you about the investigation we have ongoing, to some extent.

And I want to add one other caveat, which is that because our investigation of the credit card industry is ongoing, there are certain things, unfortunately, I can't fully get into, and I may have to defer on certain questions you ask.

With that said, in 2007, Attorney General Cuomo began a large-scale nationwide investigation of the student loan industry, as you alluded to in your opening statement. And that investigation indicated—and what we found was—that lenders around the country were paying off schools, basically, to become the recommended lenders at the universities. They were basically paying to be the recommended lender to the students. It was enormously lucrative to the lenders, and it was also, at times, lucrative to the schools.

We settled quite a few of those cases. Most of the schools and the lenders agreed to stop the practices. But, ultimately, what we did was we sponsored legislation, first in Albany and then, with the help of our friends here in Washington, a bill is now pending. It is in the Higher Education Act, and it hopefully will pass relatively soon, the Student Loan Sunshine Act, which will ban these practices across the country.

But what our investigation of the student loan market indicated to us that is relevant for today is really two things. First, that student debt in this country is enormous. And second, that the use of the university by businesses as a bottleneck to get access to students through relationships with business officers at schools was something that wasn't just limited to the student loan industry. We started looking in other areas, and we found it with textbooks, we found it with computers, we found it with healthcare plans for students, and we found it in the food service industry. And, maybe most disturbingly, we found it in the credit card industry, as well.

So, we have investigations going on in all those areas. But with respect to the credit card industry, what we found was—and what we are continuing to find—is at a very, very large number of universities around the country, there are highly lucrative, somewhat secret, exclusive marketing agreements at the schools with particular credit card companies. The schools have, in many cases, agreed not to make these agreements public to anyone.

Fortunately for us, because we have a little something called the subpoena, we have been able to obtain at least many of those agreements, and we have been able to really analyze many of the provisions in them. And I think when those provisions in these agreements become public some time relatively soon, I think it will shock many people, the kind of relationships that some of these credit card companies have with the schools.

These deals usually give very significant marketing rights to the credit card companies at the universities. Often, for example, there will be a provision that says you get to—the university will provide a list of all student data, so you get the student's e-mail addresses, you get their home addresses, you get their school addresses, you get their phone numbers, and you can market to them by phone 3 times a year, and by mail 4 times a year. And in return, the school is going to get paid $1 million or $2 million a year.

The marketing practices that then go on at the universities, which I am sure my colleagues will talk about in greater detail, are extremely aggressive. They often involve giving away free goods to

entice students to sign up for cards, and they often involve using students to recruit more students, actually using peer pressure to get more students to sign up for cards.

We are most focused right now, though, on the—what are called sometimes affinity arrangements, which is where the schools allow in the agreements—they are getting paid, basically, to allow the credit card companies to co-brand and market their cards, for example, as the Georgetown Card, or the Harvard Card, or the Yale Card.

And that is very similar to what we found in the student loan investigation, where there was an endorsed—a payment to the schools to allow—and the schools, in return for that payment, were basically representing to students, "This is our preferred lender." Here, it's, "This is our preferred credit card." And students, of course, trust their alma mater, they trust their schools. It is enormously powerful, and the groups know this. And we are busy investigating that relationship very closely, and obviously, we will continue to do so.

I see I am out of time, but I will just say absolutely we certainly stand ready, as we did in the student loan industry, as our investigation proceeds. To the extent there is a systemic solution that works, it probably makes sense ultimately for that solution to come from a legislative body. And we certainly stand ready to help in any effort here to do that. Thank you.

[The prepared statement of Mr. Lawsky can be found on page 61 of the appendix.]

Chairwoman MALONEY. Ms. Lindstrom for 5 minutes.

STATEMENT OF CHRISTINE LINDSTROM, DIRECTOR, HIGHER EDUCATION PROJECT, U.S. PIRG

Ms. LINDSTROM. Good afternoon. Thank you for the invitation to address the issue of credit cards on campus. My name is Christine Lindstrom, and I am the higher education program director for U.S. PIRG. I work with college students on campuses across the country to make sure that college stays affordable and accessible.

Our data suggests that credit card debt among college students is growing. We have also documented that excessive, high-cost credit card debt has exacerbated the crisis that students already face from the rising costs of higher education. Our project has focused on several areas where educational costs have skyrocketed. We have mentioned some of them.

Basically, if States have pulled back on funding for public higher education, more of the cost of college has fallen on the shoulders of college students. Now students are increasingly burdened with educational debt, which can cause them, once they graduate, to opt out of lower-paying, but socially valuable careers, like teaching.

In addition, textbook costs, as well as other ancillary educational costs, continue to increase. And, as a result, students have become more reliant on their newly acquired lines of credit to help offset these costs.

From that vantage point, last fall, we launched the Truth About Credit campaign on college campuses across the country. The project has two goals. First, we are educating students about being good credit card consumers through a counter-marketing campaign

that we call FEESA. It has a tag line stating, “Free Gifts Now, Huge Debt Later.” We are actually dressed up like credit card marketers on the campus, complete with polo shirts, and we’re able to educate students about being able to navigate the marketplace.

We have literally passed out thousands of these booklets, “The Consumer’s Guide to Credit Cards,” on hundreds of campuses across the country, and requests roll in every day from campus administrators to be able to use these guides in orientation, and to help with their education efforts.

Second, we are working with student governments and administrators to establish principals on campus that reign in aggressive credit card marketing on the campus marketplace.

As part of this effort, last fall, we conducted a major survey and released the results in March. And that is a report called, “The Campus Credit Card Trap.” You have seen some of the detailed results of this survey in my written testimony that I submitted. What we did find is that, indeed, college students are a target market for the industry.

Students are literally inundated with marketing tactics from credit card issuers, with high numbers of them reporting regular telephone solicitations, and 80 percent of the participants reporting that they receive mail solicitations. Some reported hundreds, but on average we found that students got about five solicitations a month from credit card issuers.

And, of course, they are regularly enticed into applying for credit cards at tables on campus through the offer of free gifts like pizza, candy, tee shirts, and beach chairs. And in one instance, we found iPods being raffled off for credit card applications on campus.

Our survey also found that, indeed, students are using their credit cards to offset educational costs. A full 55 percent of participants had paid for textbooks on their credit cards. And our other studies show that students pay, on average, $900 a year for textbooks.

Fifty-five percent of participants report putting day-to-day expenses on their credit card, including gas and public transportation costs to get back and forth to school. And as noted, 24 percent of our survey participants also reported putting tuition on their credit cards.

Additionally, a significant number of participants had gone over the limit on their cards, and had lost a card already, as a result.

Students in the survey supported our principles for responsible credit card marketing, including a policy to stop sharing their names with the credit card industry, a policy that would promote a fair card with better terms and conditions to be available for application on the campus, and a policy that banned the use of free gifts, which so often obscures students’ abilities to be good consumers, when considering whether or not to apply.

U.S. PIRG has looked at a number of pieces of legislation addressing the issue of credit card marketing. We believe that the best marketing solutions can be implemented on a campus-by-campus basis. However, we support legislation that would give students the ability to choose if they would like to have their names sold to credit card issuers for marketing purposes.

We also support a variety of legislative proposals that attempt to ban or control some of the more unscrupulous terms and conditions contained in credit card contracts.

I would like to make a final point that we do not think that college students should be banned from being able to access or use a credit card. Instead, we think that college students should be treated just like every other consumer in America with no special rights or privileges, and be able to apply for and get credit according to the same standards as everybody else.

Currently, underwriting standards are generally waived for college students, so they meet no income or credit background criteria in order to qualify for credit. Such lax standards have created a campus marketplace in which students are unfairly marketed to, taken advantage of with bad terms and conditions, and plunged deeper into debt.

Thank you for your time.

[The prepared statement of Ms. Lindstrom can be found on page 73 of the appendix.]

Chairwoman MALONEY. Mr. Thurman?

STATEMENT OF BRETT THURMAN, PRESIDENT, UNDERGRADUATE STUDENT GOVERNMENT, UNIVERSITY OF ILLINOIS AT CHICAGO

Mr. THURMAN. I don't have the statistics that some of my colleagues here at this table have. Instead, what I have for you is a story. I would like to thank you very much for taking the time to listen to a student. And I would like to ask your patience with me, as this story is just very blunt, very point of fact, and not with any statistics to back it up. I rely upon my colleagues here for that.

I attend school at the University of Illinois at Chicago. Our university has very strict policies about credit card companies not being allowed on campus to offer any kind of information, to offer any kind of solicitation, or offer any kind of prizes or free food to our students.

As a response to this, I have noticed in both my freshman and sophomore years—this would be 2005 and 2006—that you will encounter a student, or someone who appears to be a student on campus, and they will give you a piece of paper, and that piece of paper will say, "Subway, free sub sandwich Monday through Friday, 1:00 p.m. to 5:00 p.m." for example, "just this week only," and this will be in the first 2 weeks of school.

The Subway is exactly 1,020 feet away from the nearest university building. I went ahead and paced it off earlier this week. You go to the Subway, you hand the piece of paper to the cashier, and he tells you it's not really a coupon, you need to see the gentleman in the corner. You go to see the gentleman in the corner, and he has a form for you to fill out. It is an application for a Discover Card.

At this point, I really don't have a problem with what has happened so far. I understand that is a marketing technique. I understand that some people would consider it a little shady. But I am a student of political science. I am a student of the markets, and I am fine with people trying to find ways to pursue their market advantage.

Here is the problem I have. I walk up to this gentleman and I ask him, “How is this going to negatively affect my credit? My parents told me about stuff like credit reports before. Is this going to show up?”

The response is, “No, you don’t even have to accept the card. All you do is wait until it comes in the mail and just throw it away. You don’t have to call and accept it.” No one tells me there is going to be a market on my credit, saying that I was inquired about.

“Well, what if I really don’t want a card at all, can I still get a sandwich?”

I get a response, “Well, you need to fill out the form. But don’t worry, you can just throw out the card. You’re really not even applying for a card, you’re just giving us your information so that we can see if we can offer you a card,” which, if you write that down on paper, seems kind of contradictory.

These are the things I have a problem with. This happened for 2 years at the Subway restaurant with Discover. At first, I thought the problem had been solved, or it had gone away after U.S. News and World Report had actually interviewed one of my roommates who got a card in this manner.

Then, just a few months ago, end of April/early May, I am walking down the same street and a friend of mine comes up to me and says, “Hey, Jimmy John’s is giving away free sandwiches. I got this slip from someone on campus.”

Jimmy John’s is across the street from Subway. I went ahead and went into Jimmy John’s, and there is a bank of four or five laptops set up. And so, I ask the exact same questions. And now it’s not for Discover Card. It’s for a Chase—I forget if it was MasterCard or Visa. And I ask the same questions and I get the same vague responses, I get the same misleading responses. And that is the part that really upsets me.

And that’s what I really have for you, is our story from UIC. We’re an urban college. We have 16,000 undergraduate students. If I had to take a guess, I would say at least 12,000 of us have credit cards.

And with that said, I wish Mr. Hensarling were still here, so I could thank him. I would like to take this opportunity to point out that credit cards are an extremely useful tool for students.

If not for credit cards, but for access to a credit card, many of our students couldn’t pay for things such as a summer term of school, which doesn’t have much Federal or scholarship or grant funding available. Many of our students couldn’t pay for things such as rising room and board rates, rising student fees, and the extraordinarily high cost of college textbooks.

I would also like to point out that, but for access to a credit card, those same students would not have a 19 percent interest rate to pay off, while 45 percent of our students don’t even have jobs while they are in college.

But for access to a credit card, those students will not face higher credit payments for less money advanced to them than they would on most student loans, even the commercial student loans.

I would like to take this opportunity to bring everyone’s attention to the fact that this isn’t just a credit card problem, this isn’t just a student problem. This is brought about very specifically because

students need to find more financing for education, and this financing is not available in the places we would like it to be available.

So, this is a problem that must be faced on many fronts. But when we start talking specifically about credit cards, I would wonder where is the business model, what is a credit card CEO thinking, extending me a credit card when I tell him I have zero dollars annual income. Where are they anticipating the revenue to come from? I can only surmise that they anticipate the revenue to come from a very high interest rate spread across a very long period of time, which would be the period of time until which I graduate.

And then, when I graduate, and I look at my career possibilities, I am going to wonder, well, I could go into social work, I could be a public high school teacher. I could start at $35,000 a year, and I could spend 15 years paying off my student loans and my credit card debt. Or, I could start in the corporate world at $50,000 a year and get this paid off, and get this monkey off my back as fast as possible.

Thank you very much for your time.

[The prepared statement of Mr. Thurman can be found on page 86 of the appendix.]

Chairwoman MALONEY. Thank you. Thank you for your testimony.

Kenneth Clayton?

STATEMENT OF KENNETH J. CLAYTON, MANAGING DIRECTOR AND GENERAL COUNSEL, ABA CARD POLICY COUNCIL, AMERICAN BANKERS ASSOCIATION

Mr. CLAYTON. Chairwoman Maloney, Ranking Member Biggert, and members of the subcommittee, my name is Kenneth J. Clayton, senior vice president and general counsel of the American Bankers Association Card Policy Council, the group within the ABA that deals with card issues.

We appreciate the opportunity to appear today to discuss college students' rights, as adults, to obtain and use credit cards. We certainly acknowledge that not all students will manage cards in a responsible way, just as not all adults, in general, will manage debt without experiencing problems.

Dealing with debt problems at any age can be stressful. And banks do their best to deal with each individual situation quickly to help resolve the problem at hand. However, anecdotes of student problems in the card area fail to paint the real picture that students, as a broader group, are, in fact, managing their credit obligations well.

Importantly, we fear that policy decisions made on the basis of anecdotes will result in the creation of barriers to credit access that restrict the ability of young, responsible adults to manage their everyday lives.

In my testimony today, I would like to make four points. First, credit cards provide invaluable benefits to the adult student population. They offer an ability to meet day-to-day needs, from buying books to purchasing airline tickets, in an enormously convenient and safe fashion. They provide an unparalleled safety net for emergencies. And they provide an entry point to the world of credit, allowing students to build financial skills and a credit history that

will one day permit them to buy a house, get a job, and otherwise participate productively in everyday life.

Second, as a general matter, the bulk of college students handle their credit card experiences very responsibly. According to a 2008 survey by Student Monitor, 65 percent of student card users pay their balances back in full, monthly. And for the 35 percent who carry balances, those balances average out at a mere $452.

These numbers show, as do similar results from previous studies, that students handle credit as well as, and in some cases better than, the general adult population. They are also a reflection of the sound underwriting practices employed by banks, which typically involve imposing lower available credit limits, closer monitoring, and other safeguards on these accounts that result in limiting risk to both the student and the institution.

Certainly there are examples of students who took on more debt than they were ultimately able to manage. But in the vast majority of cases, students are acting responsibly and meeting their obligations.

Banks have a vested interest in ensuring that the students' experience is a positive one, as the bank wants to build a productive, lifelong customer relationship that benefits both parties.

Third, we believe that prescriptive policy decisions in this area may create barriers to credit that actually harm responsible young adults. Congress and several State legislatures have introduced legislation that would have the effect of limiting or preventing categories of college students from obtaining a credit card, whether through arbitrary limits on available credit or various prerequisites to credit card access. Today's student population is very diverse, and such barriers may impede large numbers of responsible individuals from the enormous day-to-day and emergency benefits that cards have to offer.

And, finally, we believe that the key to responsible card use lies not in artificial constraints, but in improvements in financial education. Most banks that issue credit cards are engaged in a wide variety of financial literacy and school education efforts, often in partnership with consumer groups. And many of these programs include training for young people using credit for the first time.

ABA has cataloged on our Web site many of the efforts of our member institutions and groups to provide financial education to consumers, and I have provided a link to that site in my written testimony. Much needs to be done in this area, including improving educational efforts from grades K through 12.

In conclusion, credit cards provide enormous value to young adults, the vast majority of whom have consistently shown that they can manage this product responsibly. We believe that continued efforts to improve financial education, rather than prescriptive policy decisions, are the best way to benefit this segment of the adult population.

Thank you for considering our views, and I will be happy to respond to your questions.

[The prepared statement of Mr. Clayton can be found on page 53 of the appendix.]

Chairwoman MALONEY. Thank you very much.

Erica Williams, policy and advocacy manager from Campus Progress. Thank you.

STATEMENT OF ERICA L. WILLIAMS, POLICY AND ADVOCACY MANAGER, CAMPUS PROGRESS ACTION

Ms. WILLIAMS. Thank you, Chairwoman Maloney, Ranking Member Biggert, and members of the subcommittee. I am Erica Williams, the policy and advocacy manager of Campus Progress Action. We are part of the Center for American Progress Action Fund. And, along with our sister organization, Campus Progress, we work very simply to help young people make their voices heard on issues that matter.

First, let me thank you for the opportunity to testify on behalf of the young people on over 500 campuses and communities with whom we work. My testimony this afternoon will reinforce the points of several of our witnesses today, and will also seek to convince you of two things: First, that young people, especially students, are uniquely impacted by credit card debt and the abusive practices of credit card companies; and second, that this negative impact can be made better through an approach with legislative action at its center.

Compared to previous generations, today's young adults have not only been forced to borrow for their education, but also for their expenses while in college. As we heard earlier, according to Nellie Mae, the average undergraduate has over $2,000 in credit card debt. We hear hundreds of stories and heard the anecdotes referenced earlier.

And we know that there are thousands of stories like that of Kali, a graduate of the University of Virginia. She shared with Campus Progress her experience with credit cards in college. When asked about the presence of companies on campus she said, "They were everywhere, like vultures, outside of my dorm, at football games, and in the quad. I took their teddy bears, free pizza, and complicated, convoluted sign-up forms."

By her junior year, Kali had opened three credit cards, all on campus, and had incurred nearly $3,000 in debt. Along with the giveaways and incentives, she took high fees, heavy interest rate burdens, and complex terms: three credit card practices that have been proven to heighten the risk of default. And default she did. As a senior, she graduated with over $5,000 in credit card debt.

Now, here are the points that we are emphasizing today. Kali's story is but one of many that we continue to hear from students, and it illustrates the key challenges that college students face with regard to credit cards.

First, aggressive marketing and targeting by credit card companies on campus. They use a variety of techniques, from buying lists from schools and entering into exclusive marketing arrangements with universities, to marketing directly to students through the mail, over the phone, on bulletin boards, and through on-campus and near-campus tabling facilitated by so-called free gifts.

The second challenge is high fees, heavy interest rates, and complex terms. But credit cards are notorious—and credit companies are notorious—for aggressive marketing and fine print. So why is the situation particularly damaging for students? Because young

people are in the most vital and vulnerable point of their financial lives. For college students, major borrowing from credit card companies is like visiting a Las Vegas casino. It's a gamble, and the odds are against you.

According to a 2004 study by Nellie Mae, 76 percent of undergraduates have credit cards. One fourth of the students surveyed in U.S. PIRG's 2008 report said that they have paid a late fee, and 15 percent have paid an over-the-limit fee.

And to be clear, as we have heard earlier, this accumulated debt is not always the result of irresponsible spending and late night pizza runs. It is also the result of academic fees and textbooks. Research has shown that some students even use their credit cards to pay for their core tuition.

Unfortunately, the result of this necessary use is often blemishes in the infancy of their credit history that will haunt them for years. Young adults saddled with credit debt upon graduation can pay up to $.25 of every dollar they earn servicing their debt: their credit cards, their student loans, and other loans.

Entering a job market with stagnant incomes, this generation—my generation, Generation Debt—can ill afford to be financially compromised.

This credit card occurred through aggressive campus marketing impacts our lives, our families, our communities, and our larger economy.

So, now we know the scope of the problem. But what about the solution? Students that we work with on campuses every day will continue their campaigns on the State and campus level to not allow credit card marketing aggressively on campus, to keep colleges and universities from sharing students and alumni lists to credit card marketers, and to improve financial literacy among young adults.

But Congress has a simple and significant role to play. We urge Congress to go the extra step and, with young people in mind, mandate a higher level of fairness in credit card terms in conditions by banning several of the most abusive, deceptive credit card practices, those that target students, and encourage greater transparency.

Legislative action to protect against abuses by credit card companies is a fundamental issue of fairness and protection of America's future, young Americans, when they are arguably in the most vulnerable and important phase of their financial lives.

Thank you for the opportunity.

[The prepared statement of Ms. Williams can be found on page 89 of the appendix.]

Chairwoman MALONEY. Thank you very much.

And Mr. Neiser, director of strategic programs and alliances from the National Endowment for Financial Education.

STATEMENT OF BRENT A. NEISER, DIRECTOR OF STRATEGIC PROGRAMS AND ALLIANCES, NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

Mr. NEISER. It's great to be here, Chairwoman Maloney, Ranking Member Biggert, and members of the committee. I want to extend, from the National Endowment for Financial Education, a personal

thanks to Ranking Member Biggert and Representative Hinojosa for leading the bipartisan financial literacy caucus.

We are a 501(c)(3) nonprofit foundation based in the Denver area. For 20 years, our organization has funded and created a high school program that has trained over 5 million students. Credit card information is a key part of that; 800,000 students were trained last year.

And in the college space, we have worked with the NCAA on sports and credit card issues, and created the first financial literacy program for the United Negro College Fund, among other organizations.

Last year we launched Cashcourse.org, which I will explain in a few minutes, as a way to bring to campuses customized financial literacy information that colleges and universities can co-brand.

More people drop out of college for financial reasons than academic performance, and this is disturbing. Albert Einstein called compound interest the 8th wonder of the world, and we are right at that point where it can work for you or against you.

There is a role for credit in society. But the fog of overuse of credit, misuse of it, and ignorance of it can cloud young people, young Americans, of the opportunity that this body has created in so many areas of defined contribution plans and IRAs. They have a failure to launch in those areas. And it may delay their participation for their own retirement security for 10, 20, or even 30 years. We think there needs to be a balanced approach in financial education, as a part of that.

I will provide suggestions in five areas very quickly for you: Financial education; disclosure; defaults; public awareness; and a culture of commitment.

In the financial education area, Cashcourse.org, since its launch in January, is a non-commercial free service that we offer on an institutional subscription basis. One hundred and twenty-six colleges and universities and community colleges have signed up already. There are dozens on the waiting list, evaluating the program for adoption. Cash Course provides information about the world of work, managing credit, paying for college, and several other areas important to college life and financial basics.

We are providing many enhancements as the program continues, such as seminar materials, marketing, and higher interactivity through Facebook. I am pleased to say that Brett Thurman on our panel, in the center, will be teaching at his campus from this program, using it as a supplement, because the University of Illinois Chicago is one of the pilot schools.

In the area of disclosure, we believe point of purchase disclosure is very important. The Federal Reserve in 2009, as a result of the Bankruptcy Reform Act, is ready to launch its own unique program that we would have advocated as a legislative change if it was not already in place. We are very excited about it.

Finally, Americans of all ages will see on their credit card statement, when the moment of truth is, when they pay that bill, if they pay the minimum payment, how long it is going to take to pay it off and how much more it will cost. We would ask this committee to monitor that progress, because there are two alternatives to

that, and to keep a sharp eye on how those results go. This is something we felt has been needed for many years.

In the area of defaults, this is behavioral finance, behavioral economics. We all know that—regarding the area of auto enrollments, we have made tremendous progress in the area of 401(k) use. Americans need a nudge. They need to be pushed and gently tugged in the direction of their own self-interest.

We see two areas that could improve again for all Americans. First, convenience checks. When people sign up for a credit card, they are not signing up for a check delivery service. We think that should be an opt-in program. People should have to say, "Yes, I want convenience checks," that they should not be sent to them automatically from the banks. And there is an ID theft issue there as well.

In the area of opt-outs, there is a way that people can stop most credit card solicitations now through an 800 number by the Federal Trade Commission. However, there is an exemption: affiliated sharing agreements. Americans should be allowed to opt into those if they want, or opt out of those, to have a full ban on credit card solicitations.

In the area of public awareness, we have seen a lot of positive direction in the area of credit scores. People are more aware, even from the commercial sector, of what is at stake as they use credit.

However, as Representative Hinojosa has called for, many times we need more information in this area. People need to know about the 8th wonder of the world, the time value of money, the good and the bad of it, and how it can be a balanced approach to live their financial dreams. Working with the Ad Council, we would encourage this committee to see that, for the first time in the financial literacy space, the financial basics of the compounding of interest be addressed.

Finally, the culture of commitment. What do I mean by that? With Cashcourse.org, and its co-branded effect on campuses, no longer can a university president or business school dean say, "I don't have information that is unbiased, non-commercial, or well-maintained that I can use." That is available through Cashcourse.org. And they should tap into the power of parents and other sectors of society to make this a financial literacy priority. Thank you.

[The prepared statement of Mr. Neiser can be found on page 81 of the appendix.]

Chairwoman MALONEY. I thank all the panelists for their testimony. The Chair recognizes herself for 5 minutes.

And first, I would like to ask Mr. Lawsky, what role do you believe legislation should play in addressing these problems? You mentioned one that you're working on with Congress, but are there any other areas that you think are appropriate at this time?

Mr. LAWSKY. Sure. I do think there are certainly some important areas for the legislature in this. Our investigation is continuing, and we are still, every day, finding practices that are troubling. What happened in our student loan investigation is as we discovered practices that we thought were fraudulent, misleading, deceptive, or problematic, we would work to find solutions to them

through our codes of conduct we were developing in our agreements with the banks and with the schools.

The question then becomes we can only do so much, our jurisdiction is limited. We are in New York, and New York alone. Often, when we do settlements with a bank, for example, it does have extra territorial impacts. But at the end of the day, as we discover these practices and try to come up with solutions to them, any systemic solution to them really has to ultimately come from this body and the Senate.

So, I don't have particular areas I would identify, because we're still in our investigation of finding them. But certainly with respect to the marketing practices we're finding with respect to the exclusive agreements, and some of the provisions in those exclusive agreements, they are very ripe areas for legislative fixes.

Chairwoman MALONEY. Well, could you publicly talk about what progress has been made by your office's credit card marketing code of conduct?

Mr. LAWSKY. We are making great progress with the code of conduct. It is not—it isn't there yet, but again we are—

Chairwoman MALONEY. Do you have any recommendations you can share with us now?

Mr. LAWSKY. Not yet, unfortunately. I can say we are certainly focused on the exclusive arrangements and how to deal with them.

We are focused also, I should say—and it's in my written testimony—on how potentially exclusive arrangements aren't necessarily always a bad thing. If an exclusive arrangement with a school is done right, and a school does the research required to find the credit card company that really is best for students, and really will offer something better for students than other companies are offering through that exclusive arrangement, then ultimately, the school—if you flip it around and you change the market incentives—the school can become a driver of good practices, and really a gatekeeper for good practices on campus.

That's what we tried to do with the student loan industry, and it's something we're working on carefully. And it's tricky, but we're working on it with our code of conduct on the credit cards.

Chairwoman MALONEY. Thank you.

Mr. LAWSKY. Thank you.

Chairwoman MALONEY. Mr. Thurman, you mentioned that some students are graduating with a large amount of debt. What portion of college students would you estimate change their career plans after college due to credit card debt?

Mr. THURMAN. Well, first, Madam Chairwoman, I would point out that anything I estimate would specifically just be my opinion. And I honestly would not feel comfortable giving you a number.

But I can tell you, as a president of the student government, our student government is a 25-member assembly, and these are some of the best and brightest student leaders on our campus who are elected by every other undergraduate student on campus. And of those 25, I would say there is not a one who isn't currently trying to decide, whether it be in the area of medicine or the area of law or politics, whether to go into, say, social work or working in a clinic, as opposed to opening a private practice or becoming a specified heart surgeon, so that there is more money involved.

And I know specifically at least two of my friends have already decided that law school is probably the way for them to go, as opposed to, say, going to work for Greenpeace, or something like that, following their undergraduate career.

Chairwoman MALONEY. You mentioned many students were turning to credit cards to pay for their tuition and books and everyday living. Aren't there other options like Pell Grants that—

Mr. THURMAN. Yes.

Chairwoman MALONEY. Could you elaborate? And then my time has expired.

Mr. THURMAN. Yes, ma'am, I could. Very briefly, at our school alone, about one-third of our undergraduate students are Pell-eligible, so it's a very focused-upon subject. But the Pell is a very intricate system. You may receive a scholarship of $500 that, if put into the system incorrectly, would make you Pell-ineligible. So, receiving a $500 scholarship would cost you $2,000 in grants.

And, obviously, this is something for a different committee to hear, but also more and more students are going to summer school now, because it is very difficult to attain an undergraduate degree in 4 years. There are very little financing options available for summer school.

As a matter of fact, if you want federally-subsidized loans for summer school, it has to come from unused loan amounts from the previous semester. So credit cards is where that can come into play to help a student accomplish that goal.

Chairwoman MALONEY. The Chair recognizes Mrs. Biggert for 5 minutes.

Mrs. BIGGERT. Thank you, Madam Chairwoman. It was noted in the testimony that Mr. Hinojosa and I have worked a lot on financial literacy, and started out working with the Federal Government and the agencies, and really wanted to bring this to work with the private sector, too, to have some accommodation there.

And Mr. Neiser brought up the Cashcourse, which I would like— I have to go online to see what's happening there, because that is very exciting, that you are using that in so many schools.

I just wondered what some of the other witnesses—Ms. Lindstrom, are you doing anything on the campus for financial literacy? I know you said in your testimony that financial literacy should be enhanced. But is there a way that your group, PIRG, can help to do that, since you are on—I don't know how many campuses, but—

Ms. LINDSTROM. Sure, yes. Yes, like I mentioned, this booklet helps students. It's a consumer guide to credit cards, and we're passing out thousands of those on campuses.

I think what's particularly exciting about our education effort is that it sort of penetrates all the other advertising that young people see, and educates them because it's a tongue-in-cheek effort, where we're looking like a credit card marketing effort, but we're not.

Mrs. BIGGERT. But is there any—

Ms. LINDSTROM. So, that's the main approach that we are taking to educate students through our effort.

Mrs. BIGGERT. But there is nothing, as far as getting into course work with the universities or anything?

Ms. LINDSTROM. Certainly it comes up in our one-on-one conversations with administrators, when we are discussing, you know, principles for responsible credit card marketing, and some things that the campus can do to clean up the marketplace.

But, you know, I think our bottom line is that to increase financial literacy alone just isn't going to do it. The marketplace is unfair right now on campus, and the products are poisonous. So we have been focusing on those aspects.

Mrs. BIGGERT. I would like to go to Mr. Clayton. Can you describe some of the efforts that issuers have made to educate students and young people about responsible credit card use?

Mr. CLAYTON. Yes. Thank you, Mrs. Biggert, for asking. I think it's very important, and it's along the line of what Mr. Scott was talking about, too.

This focus on marketing is kind of looking at it from the wrong end. You kind of have to flip it around and say, "Look, we have to empower people to make choices that work for them, not make the decisions for them, but help empower them to make those choices."

There is a whole range of activities that credit card companies, consumer groups, and others have been engaging in. Mr. Neiser has been talking about this, too, of getting out there and trying to educate people. But I would—

Mrs. BIGGERT. How do you get out there? Are there any initiatives with the college administrators or—

Mr. CLAYTON. Sure.

Mrs. BIGGERT. Or governments to encourage greater financial literacy?

Mr. CLAYTON. Absolutely. I think there are a number of examples of institutions working specifically with the universities.

Remember, as was noted before, students in institutions and colleges and universities work together to figure out what the right way to present these things are. And institutions will only act within the bounds of what the college has basically set out as their criteria for marketing stuff.

I know a number of institutions that actually teach courses on campus. There are always hand-outs, similar to what we're talking about here, when people get applications for credit cards that basically try to educate people on what is going on. There are a host of resources online.

The bottom line is we have to do more, but I also want to stress we have to do more even before college. I mean, there has to be a concerted effort on the part of the States, institutions, and others to kind of—

Mrs. BIGGERT. I love the NFL and Visa, the football, financial football, the way they have done that online.

Mr. Thurman, what do you see that you can do in the student government to encourage—and do you think that courses should be offered just on financial literacy, or mandated, or is this something that maybe—did you have a course in high school or anything, economics?

Mr. THURMAN. No. No, I didn't, Mrs. Biggert. Well, you asked if I think it should be mandated. I think you could get me in trouble with my dean. I think the problem—

Mrs. BIGGERT. I don't believe in mandates, but—

Mr. THURMAN. I think the key problem that comes up in educating students on financial literacy is who is going to do it, and who is going to be responsible for it?

Mrs. BIGGERT. Okay.

Mr. THURMAN. It does nothing for professors' promotion and tenure track to add a course of financial literacy to their course burden, because it doesn't affect their academic scope. If you are the dean of a college, how are you going to find the placement for it, in terms of space, the time for it in your programming, and also the pay for whomever is going to teach it.

And these are things that possibly could be looked at on a Federal or more public level, some type of incentivized—or, as was mentioned before, talking about it in high school, talking about it before someone signs up for that first set of loans, before they go into their freshman year, their first credit card before they go into their freshman year.

Mrs. BIGGERT. Well, I think that we have had the, you know, consumer education in high schools, but it doesn't seem to have really covered this, maybe because I remember it a long time ago, before we had all those credit cards.

But thank you. I yield back.

Chairwoman MALONEY. Mr. Watt for 5 minutes.

Mr. WATT. Thank you, Madam Chairwoman. And let me thank the Chair for convening this hearing on a topic that I think is very, very important for us to be dealing with.

There are, obviously, advantages to students for having credit cards, but there are also some concerns that need to be addressed. And I want to zero in on three of those, and get Mr. Clayton's reaction.

The two concerns that I am most focused on are the aggressive marketing and the issuance of convenience checks to—I mean, it frustrates me if I get a convenience check that I didn't request. It seems to be a waste of money for people to send them to me. I typically throw them in the trash can immediately. Or, actually, you need to shred them. I worry about throwing them in the trash can, because they have an account number on them already.

So, I just want to know—and maybe you have already addressed this question—on the aggressive marketing side, you kind of turned the equation and said we shouldn't focus on that, we should focus on literacy. I am a strong supporter of financial literacy, but there has to be some limitation on the aggressiveness of marketing on campuses, and elsewhere, but particularly to young people. Do you agree or disagree?

Mr. CLAYTON. I think—well, a couple of things. Let's put this in some factual context.

Mr. WATT. I don't want you to put it in context, I want you to tell me whether there are any points beyond which credit card companies shouldn't go in aggressively marketing to young people.

Then you can put it in context, if you want. I am not trying to cut you off, but I only have 5 minutes here.

Mr. CLAYTON. These are adults, and we understand that. And we understand that we're in a marketing society, and there are always going to be aggressive activities on the part to get noticed. The ultimate determiner—

Mr. WATT. But do you think it's appropriate to—this example, where—to be giving a Subway coupon, and then getting there, and you're not getting a sandwich, you're getting a credit card. Do you think that is an appropriate practice?

Mr. CLAYTON. I think it's safe to say that Mr. Thurman didn't get a credit card with that company. I mean, so I think that—

Mr. WATT. That's not the question I asked, though, Mr. Clayton. I appreciate you trying to avoid the question. I'm trying to find out what—whether you think there are some outer limits to the aggressiveness of credit card marketing to young people.

Mr. CLAYTON. There are outer limits that the States and the Federal Government—

Mr. WATT. And where do you think those outer limits are?

Mr. CLAYTON. Well, that's an arbitrary standard. I mean, it's unfair and deceptive acts and practices standards that are in the laws and in the books, and people get to enforce that.

So, I mean, I can't tell you what line—what chapter and verse, this is okay and this isn't, because that's—

Mr. WATT. Well, what about convenience checks? What is your opinion on that?

Mr. CLAYTON. I am not really prepared to respond at this point, because we're not really talking—that wasn't necessarily in the context of the student credit card market, but I mean—

Mr. WATT. Well, I didn't put it in the discussion, somebody—

Mr. NEISER. That was me, Mr. Watt.

Mr. WATT. Mr. Neiser put it in the discussion. He said credit card companies are routinely issuing convenience checks. It is offensive to me to get a convenience check with my credit card. I use a credit card to charge things, not to borrow more money, which is what I can do with a convenience check. I can borrow money on my credit card. Do you think that is appropriate?

Mr. CLAYTON. Well, for some people it is convenient, and some people use it for valid purposes, and that's their judgement to make.

As a practical matter, I think you talked about what you did with it was appropriate. If you don't agree with it, you throw it out, you shred it. I mean, these are not hard and difficult standards for people—

Mr. WATT. What happens if I throw it in a trash can and somebody else picks it up and uses it. Does the industry protect against that? I didn't want it, in the first place.

Mr. CLAYTON. Yypically, the industry does protect against people who are subject to fraud. I mean, as you can see, as you have seen in the credit card market generally—

Mr. WATT. All right. My time has expired. Let me just ask Mr. Thurman one thing quickly, Madam Chairwoman.

Are students aggressively taking action against college administrators who are issuing student lists? I mean, that seems to me—I guess if I were a credit card company, I would want the list of all the students. That is a college failing. What are we doing about that, if anything?

Mr. THURMAN. Well, Mr. Watt, I would point out, first of all, that our university, the University of Illinois Chicago does not partici-

pate in that kind of practice. So our students don't have a reason to take aggressive action against the administrator.

But perhaps Ms. Lindstrom might be able to give you some information about what is happening on other campuses.

Ms. LINDSTROM. Sure, yes. What we found is that in quite a few States, the public university system feels a compulsion, under disclosure of public records law, to have to give up all of the current information of students on campus to almost anybody who asks for it, for free or for a nominal fee.

And so, ultimately—that's just getting into a different area, but the practice actually is occurring in a set of States, and doesn't occur in other States because of public records law.

So, what we are—one of the suggestions that we made earlier is that students be allowed to opt in or opt out, know that is going to happen with their name, so that they have some control, again, over how they might be marketed to. But it is an interesting State law issue in quite a few places.

Mr. WATT. Thank you, Madam Chairwoman. I yield back.

Chairwoman MALONEY. Your time has expired. Mr. Castle?

Mr. CASTLE. Thank you, Madam Chairwoman. Mr. Clayton, on page five of your testimony, there are several rather interesting statistics which are: 41 percent of college students have a credit card, which surprised me, I thought it would be higher; of the students with credit cards, about 65 percent pay their bills in full every month, which is higher than the general adult population; among the 35 percent who do not pay their balances in full every month, the average balance is $452, which is down 19 percent from 2007; and 74 percent of monthly college spending is with cash and debit cards, only 7 percent is with credit cards.

Mr. Neiser, on the first or second page of your written testimony, you indicate that the undergraduates of today leave campus with $19,000 in student loans. Student loans are a whole different issue.

Mr. NEISER. Right.

Mr. CASTLE. I happen to be on that committee as well, which is a whole problem, I might add.

"On top of that, half of all graduates in 2004 use credit cards for school expenses, carrying an average balance of $3,900." There seems to me to be an inconsistency in those two sets of numbers. Maybe there is not. Maybe one or both of you could explain how you came up with those numbers, or what the consistencies or the inconsistencies are.

Mr. CLAYTON. Well, I would be glad to jump in first, and then turn it over. As a practical matter, this is a study from Student Monitor from 2008, a survey of students and what their experience has been, and so that is where that number comes from.

I would note, though, that the results are relatively consistent with prior studies. I was actually surprised at the 41 percent too, because I think it's actually probably higher. But there have been other surveys that the GAO has done back in 2001, that Professors Barron and Staten have done in 2004, that yield consistent numbers in terms of the extent of debt that is out there, the amount of people who are essentially paying back in full every month.

And so, I do think that, you know, it is—we feel comfortable saying to you that debts are within reasonable limits. And, frankly, it's

also a product of the marketing. Credit card companies don't give students open checks here. They don't just sit there and say, "Take a $10,000 balance." They start them off slow, they work them through it, and see if they're capable of handling—

Mr. CASTLE. Well, just to follow up, I mean, Mr. Neiser's testimony indicates the average balance is $3,900 when they graduate. And the suggestion here is that the average balance is $452 for those students who don't pay their balances in full every month, which I imagine is the ones with the higher debt, I guess. Those are dramatically different numbers.

Mr. CLAYTON. It was—and I don't know of the number Mr. Neiser was talking about—was the average balance of a graduating student, and there is a range of things—I will defer.

Mr. NEISER. In our testimony, it is half of all graduates carried that debt, and it was—the average balance of those half was $3,900, according to the American Council of Education, June 2005. So it's not all students. The half who carry that—have that average balance.

Mr. CASTLE. Well, I understand that. But you are talking about 35 percent here, and a half there, and you're talking about vast differences. I think, somehow or another, we, as a committee, need to get those figures straightened out, because they don't seem to be quite consistent with one another.

Mr. Lawsky, let me ask you a question. You indicated when you testified that the agreements between the credit card companies and the schools, when revealed, will shock us. And then you went on to say that the colleges allow the credit card companies to get addresses, other information, access, etc. Is that the shocking information, or is there something you can't testify to now, because of your legal position, that will be shocking that we don't know about yet?

Mr. LAWSKY. The latter.

Mr. CASTLE. So there are things that will be revealed, hopefully, at some point later. Is that correct?

Mr. LAWSKY. Yes, sir.

Mr. CASTLE. To—perhaps, Mr. Lawsky, and perhaps to Mr. Clayton or anyone else who wants to answer it, with respect to what the colleges are doing, and with respect to the information about the different students and that which is given out to the credit card companies, what is the relationship between the credit card companies and the colleges?

It almost sounds to me as if, in certain instances, the colleges have a responsibility here, in terms of their administration, as opposed to just the credit card companies and the students, in terms of what information is allowed to be shared. What is being done by the credit card companies with controlling that information, and what, if anything, are the college and university administrations doing to make sure that that may be brought under control, if that is a problem, if you know?

Mr. LAWSKY. You're asking about the flow of information from the universities about students to the companies?

Mr. CASTLE. I'm talking about the flow of information from the colleges or universities to the credit card companies, which I be-

lieve you testified was a problem. Is that issue being addressed, either by the credit card companies or by the colleges themselves?

Mr. LAWSKY. I'm not sure I—I don't think I know the answer to that, and maybe Mr. Clayton does. I can tell you that the—there is, in the relationship between the universities and the credit card companies, there is clearly a money flow from the credit card companies to the universities in exchange, at least in part, for student data: e-mail addresses, home addresses, school addresses, and telephone numbers, to allow the marketing.

The information I have seen indicates that is just a financial give-and-take. I didn't see protections built in there. Maybe they are aware, and I am not aware of them. But to my knowledge, it is simply an economic transaction.

Mr. CASTLE. Well, I understand what you have testified. My question is, is that a problem? Is anyone doing anything about it, if it is a problem?

Mr. CLAYTON. Well, I think that Mr. Lawsky referenced it earlier, that colleges can act as a gatekeeper, and they get to control this relationship, and they have to determine what is in the best interest of their students.

I am not privy to the specific agreements, in terms of what is shared by both sides, but you really want to turn to the universities, the ones that are getting into endorsing these products. And if they don't think something is appropriate, just like I understand they did at the University of Illinois, they say no. And that's the gatekeeper.

Mr. CASTLE. Thank you.

Chairwoman MALONEY. Will the gentleman—

Mr. CASTLE. Thank you, Madam Chairwoman.

Chairwoman MALONEY. In response to one of your questions on the statistics, the Nellie Mae survey for 2007 will come out in July, and the Fed survey for 2008 will come out in August.

The Chair recognizes Mr. Clay for 5 minutes.

Mr. CLAY. Thank you so much, Madam Chairwoman. Mr. Clayton, in the beginning of your testimony, you state that not all students will manage debt in a responsible way, just as not adults in general will manage debt without experiencing problems.

Aside from being a vague statement, you fail to recognize that most adults are receiving an income each month, whereas many college students who, yes, are considered legal adults, are unemployed, or have low-paying part-time jobs.

As you are supporting the marketing of credit cards to college students, how do you suggest we address the issue that the majority of students do not have the money to pay off their debt on time, and therefore, are finding themselves in immense amounts of debt upon graduation? Oftentimes the offering of credit cards to students is a lure to indebtedness, as they view credit cards as money and use them as such.

When you know that this is the end result, it seems to be pretty predatory in nature when the offer is made to these individuals—

Mr. CLAYTON. Let me make sure—there seems to be some discrepancy in the numbers, and we recognize that. And to us, it says that more needs to be done to figure out what is really going on out there.

I mean, we take the perspective, from the numbers we have seen, that this predatory lending that you're talking about doesn't really exist, and that, in fact, a good portion of students are acting in a responsible way in handling that credit, and it is opening doors to them.

Remember, the thing we haven't really talked about is how this has helped them build a credit record that helps them get a car loan or a home loan and be productive members of society, as they get out of college. But we're not seeing the same message.

We are seeing—again, we operate in the college space with much more confined underwriting. We limit the amount of credit that a student can take down, as a practical matter, and the results, from our perspective, speak for themselves.

I would note also there has been a lot of discussion about this massive marketing. This is a—we are—obviously, there is a lot of information flow in this society, and there is no way to really necessarily contain that information flow. It's going to come from various places.

But one of the things that people are talking to us about is how little or few students actually sign up for these on-campus marketing techniques. Now, they obviously view it as productive to do, to get their names out there. And oftentimes, frankly, they market at sporting events because they're really shooting at the alumni, and the friends of alumni, not necessarily the students.

But just one aside, the Student Monitor came back and said that only 2 percent of credit cards that students actually obtain is through these campus marketing activities.

So, I guess what I am trying to say is we are not really starting with the same premise, that these aren't necessarily predatory, that they are opportunities. And I think others have recognized this is a real value to people who need money. To the extent that there are broader societal issues brought to bear here, such as the impact of student loans, that's clearly a case.

I would say that, just as an aside, when we looked at the Student Monitor study and what they talked about, the amount of credit card debt versus the amount of student loans, student credit card debt represents less than one quarter of one percent of overall student loans, in terms of the debt that that is—

Mr. CLAY. All right, thank you for the response. Ms. Williams, in your testimony you mentioned several times how young adults are more frequently using their credit cards to pay for basic school expenses, such as tuition and books, citing research done by U.S. PIRG.

If credit cards are issued to students who are inclined to pay for school expenses in this manner, then do you agree that, by using the credit card, students are paying almost exponentially more interest than by using student loans? Do you agree?

Ms. WILLIAMS. The question is that do I agree that, by using the credit cards to purchase—

Mr. CLAY. Students are paying exponentially more interest, more in interest rates?

Ms. WILLIAMS. Absolutely.

Mr. CLAY. Okay.

Ms. WILLIAMS. I mean, the interest rates for students are considerably higher because of their thin credit history. So if you look at that comparatively to student loans, yes, I do agree with that statement.

Mr. CLAY. Is the ease of obtaining credit card financing creating greater debt for these prospective professionals?

Ms. WILLIAMS. It is, and I think that's getting to the heart of what some other witnesses—Mr. Thurman and Ms. Lindstrom—are suggesting. It is not a matter of denying access to the cards. I wouldn't even necessarily say it is the ease with which they have access. But, again, it's the predatory nature of this kind of aggressive marketing on campus.

And we are talking about, you know, young adults. They are, indeed, adults. But this is, in a way, the childhood of their financial life.

Mr. CLAY. Sure. And shouldn't we be about creating less debt and less hurdles for young people who are coming out of college?

Ms. WILLIAMS. Absolutely. I mean, the impacts, again, are not just on the students themselves, but on their lives, on their families. We mentioned that the boomerang effect of young Americans having to move back home, we mentioned—Mr. Thurman mentioned some of the impacts on the economy and job choice.

I think it is an overall broader societal issue than just simply incubated on that campus.

Mr. CLAY. Thank you so much for your response. I yield back.

Chairwoman MALONEY. Thank you. The Chair recognizes Ruben Hinojosa, chair of the Higher Education Subcommittee, which also is reviewing this challenge, and co-chair of the financial literacy caucus.

Mr. HINOJOSA. Thank you very much, Madam Chairwoman. I want to thank Chairwoman Maloney, and I want to thank Ranking Member Judy Biggert. I thank them for holding this extremely important hearing today on a subject that is very near and dear to my heart, and that is ensuring that higher education is available and affordable to as many students as possible.

Chairwoman Maloney, I am proud to be a cosponsor of your legislation, H.R. 5422, entitled, "The Credit Cardholders' Bill of Rights Act," and I was more than willing to cosign the letter to Federal regulators in support of the proposed rule to ban unfair or deceptive credit card practices.

As chairman of the Subcommittee on Higher Education, I am very concerned that more than 100,000 students each year do not enroll in higher education institutions because of financial barriers. I am equally concerned about the amount of debt that students are incurring while attending institutions of higher education. And I have been working diligently to make college more affordable and ensure that students graduate with the least amount of debt possible, including credit card debt.

At this point, Madam Chairwoman, I wish to ask for unanimous consent to submit for the record three documents that I have with me. The first one is my complete statement, which is much longer than this condensed statement that I have just made.

Secondly, I would like to ask unanimous consent that a report by U.S. PIRG, entitled, "The Campus Credit Card Trap," and that ac-

ronym stands for a survey of college students and credit card marketing by the U.S. Public Interest Research Group Education Fund, and this report is dated March 2008.

And lastly, I would like to ask unanimous consent that the report that was released, a press release from House Education and Labor Committee Chairman George Miller on the FTC's new consumer guide on student lenders' deceptive marketing practices, and a copy of that guide, entitled, "FTC Facts for Consumers: Student Loans and Avoiding Deceptive Offers."

Chairwoman MALONEY. Without objection, it is so ordered.

Mr. HINOJOSA. Thank you.

Chairwoman Maloney, I again applaud you for your legislation and letter—and your dedication to this cause.

And I wish to take this opportunity, since I still have part of my 5 minutes, to ask some questions. I apologize that I am a little bit late and didn't get to hear the witnesses make their presentations, because I was at an event where I introduced some very important people, including Senator Clinton, and that made me a bit late.

I know that this young man, as one of the witnesses, was testifying about his experiences on the college campus in Illinois, and I was delighted, because that opened, then, the door for me to talk about the need for the financial literacy education programs that are available, and mandated in some States like my own State of Texas. And that, of course, would help them be prepared to go to college and better handle debt as they start their college education.

Can you tell me if there are any other States that are requiring this? Maybe students who came to your campus that had already taken those courses back in their sending State?

Mr. THURMAN. Sir, on the level of States requiring that, I don't have that information. Perhaps one of the other panelists might. My area of expertise is very much limited to the University of Illinois at Chicago. I do know that we have started developing a program for our students, but in terms of State requirements, I don't have that information.

Mr. HINOJOSA. Well, the strength of the student body that you represent, possibly you all could start a movement throughout the Nation. There are several States, according to a note that was just given to me by staff, that already include a class on financial literacy as part of the core curriculum. Texas is one such State.

And possibly that might help Judy Biggert, my friend from Illinois, who is the co-chair of a caucus that is working with about 87 other Members to try to get this program out into the country, and particularly to students who are looking for accessibility and affordability to higher education.

But I think I will then go on to ask another gentleman who is on this panel, and I will ask one question, Madam Chairwoman, of Kenneth Clayton, managing director of the ABA Card Policy Council.

I have had several representatives from organizations like yours coming to visit my office and talk to not only me, but my staff, trying to tell me that they have mended their ways and that they have fixed things up to where they are no longer charging for things that I was upset about, and that is that if they are late in making their payment, that you can easily take the rate at which

they started out using their card, and bump it up to as high as 28 percent plus late payment fees and other fees that just make it almost impossible for them to ever get out of debt.

What is your organization and your members doing to discontinue that?

Mr. CLAYTON. I think, as you have seen, there are choices in the marketplace where various participants have either decided not to make these products—these type of rules applicable to their products or not.

I mean, so consumers can say, "I don't want this, and I am going to go get this card," or not. They are very—there are a number of institutions that market very simple-termed cards, and I won't—I can't get into a marketing campaign for them here, but the bottom line is they have various products out there for people that want to have these things limited.

I think the other thing I want to stress here is, as you know, the Federal Reserve has moved in this space in a dramatic way, and I think most people have recognized that it is a very broad proposal that they put out to address some of the concerns that have been raised in this committee to the credit of Ms. Maloney and others, and they're looking very seriously at it.

We have some concerns with those proposals, because we think they have the net effect of driving up costs to a wide variety of people, and end up unfairly having people that pose higher risk actually be subsidized by those that don't pose risk at all.

But that being said, there is going to be a lot of addressing of these issues that people are talking about. The Fed will act and it will apply a standard that everyone is going to have to—

Mr. HINOJOSA. With all due respect to you with your title of managing director, I will say that I receive two to three applications for credit cards. And to this day, in the last 10 years, I have not received one from those companies that have simple, easy credit terms like you just described. All of them have little fine print at the bottom, that if I'm late, if I'm this, that and the other, I will get penalized, I will have late payment fees.

So, evidently Congress is going to have to step in and just make it universal, so that all of the companies will have to change—

Chairwoman MALONEY. I thank the gentleman for his comments, and your time has expired.

Mr. HINOJOSA. Thank you, Madam Chairwoman.

Chairwoman MALONEY. You made many important points. Congressman Scott for 5 minutes.

Mr. SCOTT. Thank you very much, Madam Chairwoman. It is a very good hearing.

Let's talk very specifically about what we can do, as a Congress, what kind of legislation we can put forward.

What we have here is a captive audience of young students on a campus. They are at a very vulnerable part of their lives. The testimony is very effective. Let's start with the number one question.

Number one, would you favor legislation that would ban this activity? There is documented evidence that there is agreement between many of these universities and credit card companies, of which these universities are paid huge sums of money for the right

to market their credit cards to their students. Would you favor legislation to ban that?

[No response]

Mr. SCOTT. Any—hurry up, my time is ticking, and I have quite a few more—I am trying to get at some issues here. I mean, if you want us to do something, this is something we can do. Is this something we should do?

Ms. LINDSTROM. Sure. Yes. I think I am excited to see what the attorney general in New York—what their investigation turns up, in terms of the relationships. And I do think there should be accountability, once we know what actual relationship exists.

I think right now some of the things that we're particularly interested in, in terms of legislation to clean up the campus marketplace are the same underwriting standards for students as the rest of consumers in society. So, as we mentioned earlier, there are lax standards. And, as a result, students don't need to meet the same criteria, and they get—

Mr. SCOTT. Well, so let me just ask this, because my chairwoman is going to put the hammer down on me.

I just want to know is it okay—I mean, is it fine—that these card companies can come pay these universities money to have the right to come in and market their product to their kids? Because this is an industry. They are already doing it at a tune of $1 billion a year. I mean, we heard a lot of complaints here. Once they get the right to get on campus to do it, this is capitalism. They paid the right to have access to those kids.

Ms. LINDSTROM. Right.

Mr. SCOTT. Do we stop that at the gate? Do we stop the folks at the gate and don't let them get on the campus? That's what I am asking.

Mr. THURMAN. Mr. Scott, if I may? I would suggest the answer to that is yes, and I would suggest that based upon a couple of simple premises.

First, in some university environments, especially in rural campus environments, what you have is an extraordinarily captive audience. And if the university is going to sign some type of exclusivity agreement—and I do believe that's what we're talking about—that's only going to allow a particular company access to those students, we're not just talking about those students just drinking Coke instead of Pepsi. We are talking about those students having access to only one set of terms of interest rates, of payback terms, of late fees, of overdraft fees. And for that simple reason, for starters, before we get into anything else, I would suggest that that is a reason alone to ban exclusivity agreements on campus.

Mr. CLAYTON. Mr. Scott, I guess we would have to oppose it. I mean, we really do think that, in many instances, schools—and I think Mr. Lawsky actually talked about it—schools actually can get benefit from this to benefit the students that they're actually serving.

I would also note that whether you're in city areas or rural areas, we are in a very open-ended communication society. You can get access to information on the Internet, wherever you're sitting. So you can get it from your local bank, you can get it from other

places. Regardless of what arrangements a college makes with an institution, it's not the exclusive way to gain access to students.

Mr. SCOTT. But I think the point we would make is you listen to the young people and what they're saying—and there is some victimization that is truly going on here with the credit card companies—combined with the lack of the literacy in education, they are just sitting there.

And the other thing is, okay, once we get them on campus—and so we have a tie here, we have a draw here, 50/50, some say they should—but if they get on campus, and then the next thing they're giving these gifts, and the data says that three-fourths of all students that come and get the gift fill out the application. There is a real strategy here. You feel a role of responsibility. You're going to take the teddy bear, okay, "You take my teddy bear, you have to fill out the application." You fill out the application, it's gone.

So, should we pass legislation to ban giving of gifts?

Mr. CLAYTON. Let me just jump in for a second. First of all, when we talk to institutions, they basically tell us that the primary vehicle for them signing up people with card agreements is when those people come into the bank branches and open up savings and checking accounts.

We think it is overstated that these gifts are necessarily driving consumers to take on a great deal of debt. I mean, you know, I don't think that gives enough credit—no pun intended—to the students and the—

Mr. SCOTT. Mr. Clayton, the PIRG survey I am reading from here reported that three of four students—three out of every four students—reported stopping at tables to consider or apply for credit cards when they were offered gifts.

Now, there is a direct correlation here, and we're trying to get at that. If we do let you on the campuses, then the issue becomes you are giving these gifts. The kids there feel an obligation to fill out the form. Once they do that, they are hooked into it. So it is a system that is going on here.

Universities need to wake up. I think they have a responsibility here. If they are signing these exclusive agreements, they are giving carte blanche to turn their kids loose to people when they come in. And this is a business. This is the American way. They are going to be aggressive with their tactics. Once they pay the university, the university turns them loose on the kids. Then they come and they give the kids gifts. Then they're paying the kids. I mean, this is a little system here, and I am just simply saying we need to look, and take a look at some of the deceptive practices.

My final point is that I wanted to get at is—because my time is up here—would you support legislation for parental—would you support Federal legislation that requires that, before the kid can get the credit card, that he has to have a cosign with his parent or a guardian?

Chairwoman MALONEY. Answer quickly, because the gentleman's time has expired.

Ms. LINDSTROM. We would support students being subject to the same underwriting standards. So that means that if the student has no income or other assets, then yes, I think maybe considering the formation or encouraging a starter card for students who have

no income, or allowing them to get a card with a cosigner makes sense.

But I do think that students should be treated like everybody else. And the vast majority of students do have an income, and do have a job, and should be able to get credit and have a credit check, just like everybody else, relative to the credit that they qualify for.

Chairwoman MALONEY. Thank you.

Mr. SCOTT. Thank you.

Chairwoman MALONEY. The gentleman's time has expired. And Congressman Cleaver—

Mr. CLEAVER. Thank you, Madam Chairwoman. I want to follow with Mr. Scott's questions.

Mr. Clayton, do you disagree that some of the practices that we are discussing here today are very similar to the practices that led to the current subprime crisis with the 1.3 foreclosures as of today, a predicted 6.5 in the next 5 years? Do you believe that there are any parallels?

Mr. CLAYTON. I do not.

Mr. CLEAVER. Okay. So, is there a parallel between giving people credit for homes that they can't pay for, and giving people credit cards that they can't pay for? Do they sound similar?

Mr. CLAYTON. No, I don't agree with that, either, because what we're seeing statistically is that they can pay for it.

Mr. CLEAVER. That's what the people said when they gave the people the subprime loans, almost the exact words. That's the same logic they use. And we are having 20,000 foreclosures a week.

So you think such legislation is fake?

Mr. CLAYTON. I'm sorry?

Mr. CLEAVER. Fake, f-a-k-e.

Mr. CLAYTON. And that is fake in what respect? I mean, the—

Mr. CLEAVER. On page 7, you said that this is artificial, and a synonym for artificial is fake, bogus.

Mr. CLAYTON. We think that artificial constraints will have the effect of limiting the ability of very responsible adults to get access to credit that they use for very valid reasons.

Mr. CLEAVER. Okay, so you believe that if we required that students who don't have a job receive a credit card, as Ms. Lindstrom has said, in the same way that other individuals are marketed—in other words, if they don't have credit, they don't get a credit card, and if they want a credit card, someone must sign for them, just like a car, if you don't have a job and you want a car, your parents have to cosign for you.

Mr. CLAYTON. Not everybody has a parent who is either willing or able to sign for it. And so you're ending up taking those people out of the marketplace.

Mr. CLEAVER. Well—

Mr. CLAYTON. That's a judgement that you make, and I understand that, and that's certainly the prerogative of the Congress.

Mr. CLEAVER. Yes, the legislation says a parent or an adult, anyone who is willing to cosign.

Mr. CLAYTON. But there may be adults who don't have that—

Mr. CLEAVER. That is absolutely true. And that is why we have the subprime crisis, because people were getting things, and they

had no back-up, they had insufficient income. The figure that has been used about the number, the debt, comes from the Nellie Mae Corporation study. And if people are leaving college with almost $3,000 worth of debt and no job, doesn't that sound like we have a problem?

Mr. CLAYTON. The numbers are nowhere near what you're talking about in the subprime crisis, as you know. And the Nellie—

Mr. CLEAVER. I beg your pardon?

Mr. CLAYTON. The actual dollar numbers that you're talking about in the credit card space is much less than what you're talking about in the—

Mr. CLEAVER. So it's not—we shouldn't be concerned if people don't lose homes, they just start out in their adult life broke.

Mr. CLAYTON. We're not saying you shouldn't be concerned. We should be concerned. We are saying that some of the remedies will create greater problems than the problems that actually exist.

Mr. CLEAVER. Tell me the problem created by requiring a cosigner.

Mr. CLAYTON. All I can do is respond from the perspective of someone who may not have a consignor to make that. They will not have the benefit of a card to take care of a car that breaks down, or to buy books.

It's not that we're saying that credit cards should be your first choice to buy—to use to purchase books. That's a deeper issue of whether the funds are available to make those purchases.

Mr. CLEAVER. Oh, you—I mean, your job is just to give them the credit card.

Mr. CLAYTON. We find that our job is to allow consumers to benefit and actually get—

Mr. CLEAVER. So you're doing them a favor. I mean, you're providing a service.

Mr. CLAYTON. Lots of people would tell you that we are.

Mr. CLEAVER. Now, you talked about the Federal Reserve. And they are, in fact, working on regulations. But we do—we both—you and I will agree that is not a law.

Mr. CLAYTON. That is correct. But it is a basis of a law that Congress passed previously.

Mr. CLEAVER. You would prefer to have the Fed draft regulations than have us put a law in place?

Mr. CLAYTON. Laws end up imposing very restrictive solutions on things that—

Mr. CLEAVER. That's the point of laws. We put a stop sign, we want to restrict you from driving through. That is what laws do.

Mr. CLAYTON. I understand. And it is your prerogative.

Mr. CLEAVER. We are trying to keep people from running people into debt, young people getting a start. I mean, this Nation is –.6 in savings, –.6. Asian nations are almost 20 percent savings. They're trying to stop people from saving so much of their income in Japan.

The –.6 means we're going the other way. We ought to be trying to work with laws and whatever else we can do to prevent this from becoming another crisis. Sir?

Mr. CLAYTON. The—

Mr. CLEAVER. I disagree. Let me ask you, Ms. Lindstrom, do you think most of the students on campus understand universal default?

Ms. LINDSTROM. No, I don't think they understand—

Chairwoman MALONEY. The gentleman's time has expired, and I thank him for his questioning.

The Chair recognizes Walter Jones, from the great State of North Carolina.

Mr. JONES. Thank you, Madam Chairwoman, and we are so proud of you, because you were born in North Carolina. So we thank you for remembering your roots by welcoming me.

I want to thank you. I don't know if anyone—I had to be out for a few minutes—has anybody mentioned the parents who have to pay some of these charges in your testimony?

Mr. CLEAVER. I tried.

Mr. JONES. Oh, you did? Okay.

Mr. CLEAVER. I tried.

Mr. JONES. All right. Well, I apologize, because I missed your—the reason I ask that, and I do know my colleague has been one of those parents, but this is one of the issues that I have had—I'm not going to exaggerate, but I will say in 14 years, I have had many concerns and complaints from parents.

And you have touched, in your testimony—and I thank each and every one of you for your testimony—you have touched on the fact that too many times these universities are being paid to send a person's name so they can send a card to that individual. I think that's going to be addressed, I hope, in this legislation, or will be addressed. I think it is wrong. Not only do I think it is wrong for the student, but I think it is terribly wrong for the parent if that student is 18, 19, or 20 years of age, or maybe even older.

Maybe, Ms. Lindstrom, you might be the one to answer this question. I had the staff very kindly help me with profits by the credit cards. I want to read this, and then I will zero in on my question.

"The credit card industry is the most profitable one in the United States, with annual earnings in the $30 billion range. Many people might be surprised to learn that a single credit card issuer, MBNA, earned 1.5 times more profit than McDonald's in 2004. Citibank, another major credit card issuer, earns more profit than both Microsoft and Wal-Mart."

How much of the $30 billion, what percentage in—would you say is targeted and percentage comes from students who use their credit card?

Ms. LINDSTROM. Yes, I actually don't know the answer to that question. I will have to get back to you on that. I don't know the breakdown of the profit—

Mr. JONES. How about Mr. Clayton?

Ms. LINDSTROM. —and what sector it comes from.

Mr. CLAYTON. I don't have that information. I would also note that a lot of card companies actually have students that get their cards that are not marketed to students, they're just part of general marketing efforts. So they may not be able to identify if they're students.

But I suspect it's still a relatively small number, as a percentage of the overall profit.

Mr. JONES. Would anyone want to guess? Is it 1 percent or 2 percent?

I—just to see this—and I realize that when you are zeroing in on these young people, the hope is that they will be a user of that card for years to come. I realize it doesn't just stop when they graduate from college. But I wonder if there is anyone that—to me, you're putting a tremendous amount of money into a marketing effort, and you are zeroing in, and I realize that's not just for the short term, it's for the long term.

Would anybody be able to respond to the point I am trying to make, or the amount of money that you are going to—of the $30 billion, you can't tell me that 1 percent of that $30 billion—and I understand if you can't—is coming from the college effort?

Ms. LINDSTROM. Well, yes. I mean, I would respond with the fact that what we're talking about here is a captive market and a highly desirable market that the industry is clearly going after in a very concerted way. They want to become the very first card ever in somebody's wallet, because, you know, I guess marketing studies have shown that folks develop some kind of sympathy or just get used to that particular card.

And so, you're more likely to get a customer for life if you can be the very first card that gets into somebody's wallet. So, I do think what you're talking about is correct. The investment in getting at students is all about the long-term pay-off, regardless of whether or not, you know, there is a—one percent of the overall profit margin comes from the particular student consumer right now. I think the push to get into the wallet is what creates the dirty marketplace, as it were, that exists on the college campuses for students.

Mr. JONES. And the student is charged the same percentages, late fees, just like a person 30 years old or 40 years old? I mean, there is no break for the student?

Ms. LINDSTROM. No. I mean, again, we only have anecdotal information. But we do know from our student constituency that students do encounter worse terms and conditions than it seems like their parents would, for instance.

So, a 9 percent teaser rate that you get, an interest rate for 6 months, that then jumps up to 29 percent. Or, you were late on a payment, and then you—or something along those lines. We have actually gotten reports, students reporting in, that they are paying an interest rate of 38 or 39 percent. So, again, this is all anecdotal. We don't have any real information to back up that, but we have a sense that the terms and conditions are particularly filled with the "gotcha fees" in a way that is not necessarily the same case for the broader consumer marketplace.

Mr. JONES. Thank you. Thank you, Madam Chairwoman.

Chairwoman MALONEY. Thank you. In the spirit of bipartisanship, there will be two additional questions, one from Mr. Scott and one by Mrs. Biggert.

And I am told we will be called for a vote shortly. So, Mr. Scott?

Mr. SCOTT. Yes. Thank you very much. Just very quickly—and I appreciate the generosity of our chairwoman—because I think

that you made a statement there that we treat these the same as we would adults.

But that is not fair. The adult has a job. They have a house. They have started in life, they are there. These are young people, just starting out. There ought to be more of a nurturing and a caring as you're starting them out on this journey.

I firmly believe we have to do something about turning over these exclusive rights at these universities, who are getting billions of dollars to make available these students. We have to do something about the enticements being used to attract the vulnerable student. This is a business that is not just with a product. They make their money—credit cards make their money on late fees, penalty fees, interest rates, and compounding interest rates.

My question, just to give an example, is that even right now, why could we not—would it be possible, would you support us making sure that, even as we move forward, that we ensure that the full amount of a payment is listed in the payment box, as opposed to, say, the small minimum payment that is there? If we do that, I think it would help encourage the student to pay off more of his debt, or pay in full each month, if we show the full amount that is there.

My point is, by only making minimum payments, let's say, on a $5,000 balance, that can lead a debt to a debt that would take, just that small amount, 7 to 15 years to pay off. These just are small things that I think we need to do. And I fall down on the side that we need to do and go the extra mile for these students. They are not the same as adults out here. And we need to do something about the university.

But my point is, is that possible for us to do, just set one simple thing so that we could cut down on the amount by putting the full payment in there? Yes, sir?

Mr. NEISER. Mr. Scott, any time that Americans can be faced with the brutal facts of what they're spending, and the potential consequences of not paying things off, is an educational and a teachable moment. And the same thing has to happen on the savings and investment side. It's disclosure, it's what economists say is—it's the moment of truth. And we can't have information in the shadows to cause people to find, 10 year later, that they made a mistake.

And again, as my testimony indicates, the Federal Reserve regulations coming forth in 2009 to disclose more of what that hard, brutal truth is to Americans is encouraging. But it needs monitoring.

Mr. SCOTT. Okay. So you agree with that?

Mr. NEISER. Yes.

Mr. SCOTT. Good.

Mr. NEISER. In general concept.

Mr. SCOTT. Thank you. Now, the one other point that I wanted to ask was that—what if we had a way in which the—am I okay?

Chairwoman MALONEY. Sure.

Mr. SCOTT. All right, thank you.

Chairwoman MALONEY. This is the last question.

Mr. SCOTT. Last question. See, because we need to help the students here.

If we require a monitoring, if you don't want to go with my plan for the cosigner of the parent, because you have to have the parents in here, they don't know. Kids are up there, it's free money. I mean, we're in a credit conscious world here.

But what if we put a requirement in that, on a certain periodic basis, that there must be a monitoring by the parent or the guardian, that the bill is not just sent to the student, but that there is a requirement that the monthly bill goes to the parent, as well, because if the youngster does not fulfill his obligation, somebody has to do it. And it's normally—they're going to go to the parent, anyway. The quicker we can bring the parent or the guardian into this situation to help in that might be helpful.

Mr. THURMAN. Sir, I would suggest that, in my opinion, I would be opposed to that for a couple of reasons. The first would be some—what I would think, just from a student perspective, some obvious privacy concerns. Because although it is a young adult, it is an adult past the age of 18, as Mr. Clayton has pointed out.

But, secondly, as Ms. Lindstrom has asked, if we do—in terms of our conditions for allowing them to have credit cards, if we do apply the same conditions to students as we do to, say, a 27-year-old line worker at the Ford Motor plant, then what we will have is we'll have a student who has a part-time job allowed to have a credit card, not monitored by their parents, because they do have a source of income to pay that.

A student who has no job does not get that credit card. And, as we have talked about earlier with cosigning, there is then an option for that student to get that credit card. And if the parent is cosigning, I would hope—or at least I know my father would demand some type of status update as we went along.

Mr. SCOTT. Right, right.

Chairwoman MALONEY. The gentleman's time has expired.

Mr. SCOTT. Thank you for your—

Chairwoman MALONEY. Mrs. Biggert?

Mrs. BIGGERT. Thank you, Madam Chairwoman. Mr. Thurman, in your written testimony you say that these cards are not tailored in any way to be financially beneficial for students.

For the large portion of students who really do use their cards responsibly, isn't there really, in fact, a tremendous benefit in the form of establishing credit history, and then they have an interest-free loan each and every month?

Mr. THURMAN. That is correct, Mrs. Biggert, that is true. They have an interest-free loan each and every month, in terms of the credit card in the first 6 months. Then you get the 15 to 19 percent actual APR.

And what I meant when I said that it's not targeted toward students in any specific beneficial way is that there is nothing that a student gains from signing up for a credit card that my father doesn't gain from signing up for a credit card, in terms of benefits.

Mrs. BIGGERT. Well, should there be any difference? And isn't it—with a credit card and a young person starting out with a card, they're going to have a really low limit?

Mr. THURMAN. Sure, they're going to have a really low limit.

Mrs. BIGGERT. And does that really, you know, affect whether they would need to have a parent or anybody? Because that really

is risk-based pricing, isn't it, because the—let's say—and as I recall, when my kids first started getting them, they were really low, like $500 or something, and they realized that they don't go very far with that.

Mr. THURMAN. Yes.

Mrs. BIGGERT. And if they learn that lesson right then, then they balance whether they're going to have an overdraft or not.

Mr. THURMAN. That's true. And if I may take that example, the $500 limit, and then also use Mr. Clayton's statistical analysis that, of total student consumers of credit cards, only about 37 percent are carrying an average they don't pay off every month. And on average, that balance is $452.

So, let's just assume on the low end they have a 15 percent APR. Now, I have to admit, I got a C in finite math for business, so you might want to check the math, but if I start in the fall semester, and I spend $452 on textbooks—and I am a full-time student, so I don't have a source of income—and I have a 15 percent APR, by the time I finish that year in May, which is when I can go get my summer job, that $452, which was under the $500 limit, has gone up to $1,380. That is not including the over-the-limit fees and the late payment fees that I might incur.

Mrs. BIGGERT. But you are assuming that you are only going to make the minimum payment.

Mr. THURMAN. Actually, I am suggesting that I have no funds with which to make the payment.

Mrs. BIGGERT. Then you shouldn't have a card.

Mr. THURMAN. Very good point.

[Laughter]

Mrs. BIGGERT. But do you really think that it is—aren't we making it, then, harder for students to learn about it and obtain credit? I mean—

Mr. THURMAN. I think if we take the position of quite simply saying no credit cards for students, yes, definitely. Mr. Clayton has a fantastic point. Students need credit cards, especially when our Federal and State systems are failing them, in terms of paying for higher education.

But what we have talked about here in our discussion is a much broader scope of ideas: talking about cosigners; talking about making sure certain information is made available to—

Mrs. BIGGERT. But still, it's going to be the same thing, that if a student has $452 that they put on their card the first month, and then they don't have the money to pay it back, it's useless.

Mr. THURMAN. Exactly. and if they didn't have the money to pay it, that means they would have had to report a zero average income, which, right now, gets me a credit card.

But if we're talking about actual same standards for students as we have for people who work, for example, in a Ford Motor plant—I'm sorry, I'm from Detroit originally, so I have to plug the name—if we're talking about the same standards, then that student doesn't get the credit card without the cosigner. If there is a cosigner, then there is someone else involved who does have some sort of income, otherwise the credit card wouldn't have arrived in that student's mailbox.

Mrs. BIGGERT. Well, I don't think that their parents would cosign it, if they knew that their child was not going to be able to pay it off. I mean, you would assume that they're sending money to somebody who is in college, or they're working part-time, and they're going to build some funds. Because a credit card is for a loan, it's not for just, you know, a piece of plastic that they can charge with. And that's part of the problem, is some of these kids never realize that.

Mr. THURMAN. I would suggest two things, Mrs. Biggert: First, that when we start talking about our students' educations and financing it, that I am very reluctant to make any assumptions, especially about family financing; and second, that a credit card is not at all a loan. A loan is a loan, and a credit card is a high-interest way to take care of, hopefully, temporary financial needs. But that's not how it's being used, due to the circumstances surrounding our higher education system.

Mrs. BIGGERT. Well, I think we have a little difference in the definition of what a credit card is, because it is an unsecured loan. Okay. I will yield back.

Chairwoman MALONEY. I thank the gentlelady for her questions, and I thank all of my colleagues for their interest and their input. And the panelists, we appreciate it.

The Chair notes that some members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses, and to place their responses in the record.

The hearing is adjourned. Thank you.

[Whereupon, at 4:10 p.m., the hearing was adjourned.]

A P P E N D I X

June 26, 2008

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Prepared Remarks of Chairwoman Maloney for Subcommittee Hearing on Problem Credit Card Practices Affecting Students

WASHINGTON – Congresswoman Carolyn B. Maloney (D-NY), Chair of the Financial Institutions and Consumer Credit Subcommittee, delivered the following prepared opening remarks at today's subcommittee hearing, *Problem Credit Card Practices Affecting Students*:

"This hearing entitled 'Problem Credit Card Practices Affecting Students' focuses on the issues that arise in the context of credit card marketing to students, especially college students. I welcome the witnesses and thank them for their testimony.

"This hearing is the outgrowth of response to our comprehensive credit card reform bill, The Credit Cardholders' Bill of Rights. At our Credit Card Roundtable last year, and in later discussions, it became clear that many issuers, consumer advocates, and Members share a special concern with students' use of credit cards. As new entrants to credit, students seem particularly vulnerable.

"As some of you will recall, in the late 1990s, credit card marketing on campus became the subject of press reports and controversy. At the request of Congresswoman Slaughter, Congressman John Duncan, and Congressman Kanjorski, the GAO undertook a 2001 study of college students and credit cards. The GAO concluded that while credit cards offered students many advantages, there were grounds for concern that college students were more likely than other credit card users to end up with high debts.

"As the GAO report found, credit card issuers market intensively to college students. This is not surprising: students represent new customers who live bunched together and are thus cost-effective to reach. Students want and often need credit, but may not realize all the consequences of applying for or getting a credit card.

"In some cases, schools facilitated the issuers' efforts to market cards to students. In his 2000 book 'Credit Card Nation,' Professor Robert Manning of the University of Rochester documented arrangements between universities and colleges and issuers under which the schools received money from the issuers for the right to market credit cards on campus to the students. Manning found that these agreements resulted in payments to the 300 largest universities of some $1 billion a year.

"About 18 states have since passed laws restricting or regulating on campus marketing by issuers. But the issue is not resolved. This spring, New York Attorney General Andrew Cuomo announced that his office was conducting a nationwide investigation into whether credit card marketers have offered payments or other incentives to colleges in exchange for exclusive access to the institutions' students.

"On-campus marketing to students often involves offering a reward for applying for a card. In a March 2008 survey[1], USPIRG listed T-shirts, food, sports toys, caps, mugs, and soda as commonly offered 'gifts.'

[1] "The Campus Credit Card Trap: A Survey of College Students and Credit Card Marketing," US PRIG, March 2008

"Seven years after the GAO report, major issuers have introduced a number of important policy changes to address the special problems of students and credit cards. For example, American Express says that their 'Blue for Students' Card has more stringent limits on the size of credit lines than the normal Blue Card, and that they do not actively market to students on campus or otherwise. Citi's Platinum Select mtvU card was acknowledged by *Consumer Action* for rewarding students based on responsible credit behavior and was a top pick for best student credit cards as reported in *Smartmoney.com* in August 2006. Bank of America says it caps students' available credit at $2500, and does not raise students' interest rates retroactively for any reason. I applaud these and similar efforts, which represent best practices consistent with the Gold Standard principles for voluntary action that resulted from the Credit Card Roundtable I convened last year.

"But the question is: Are voluntary efforts enough? Will the force of competition drive those who want to move to best practices back to something less? And ultimately, what is the best way to ensure that students become responsible users of credit?

"In fact, studies since the 2001 GAO report show that credit card debt held by students is rising. Using data from the Federal Reserve's Survey of Consumer Finance from 2004 and 1989, the non-partisan organization Demos calculated that young adults between 18 and 24 have 22 percent higher credit card debt than their peers had in 1989.[2]

"Similarly, studies conducted by Nellie Mae show a significant rise in credit card usage among students. A 2005 report[3] done by Nellie Mae of students in college found that 76 percent of undergraduates had a credit card, as opposed to 67 percent in 1998; that 43 percent have four or more cards, as opposed to 27 percent in 1998; and that the average balance on student credit cards was $2,169, up from $1,879 in 1998.

"Perhaps of most concern, students' use of credit cards to pay for tuition is also going up, even though federal student loans are generally available at lower rates and on more flexible repayment terms. In the 2001 GAO study, about 12 percent of undergrads said they used credit cards to pay for tuition. The 2005 Nellie Mae credit report study showed that figure doubling: 24 percent of undergrads used credit cards to pay tuition.

"These are the issues we will be looking at today. I look forward to the testimony."

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[2] " Generation Debt: Student Loans, Credit Cards, and their Consequences," Winter 2007, Demos, at 3.

[3] "Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends" (Nellie Mae, May 2005)

OPENING REMARKS OF THE HONORABLE RUBEN HINOJOSA
HOUSE COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
"PROBLEM CREDIT CARD PRACTICES AFFECTING STUDENTS"
JUNE 26, 2008

Chairwoman Waters, Ranking Member Biggert, I want to thank you for holding this extremely important hearing today on a subject that is very near and dear to my heart....and that is ensuring that higher education is available and affordable to as many students as possible.

I strive to ensure that students obtain college loans at the lowest rates possible and graduate with the least amount of debt possible from both student loans and especially credit card debt, which carries a much higher interest rate than student loans.

Chairwoman Maloney, I want to commend you and your staff for tackling such a difficult issue and introducing H.R. 5422, the "Credit Cardholders' Bill of Rights Act." I am proud to be both a cosponsor of that legislation and a cosigner of the letter to the Federal Reserve, the Office of Thrift Supervision, and the National Credit Union Administration in support of the proposed rule they have issued under the Federal Trade Commission Act to ban unfair or deceptive credit card practices. If there is any other way I can help you tackle this issue as the legislation moves forward, please do not hesitate to contact me.
As Chairman of the Subcommittee on Higher Education, I am very concerned that more than 100,000 students each year do not enroll in higher education institutions because of financial barriers. I am equally concerned about the amount of debt that students are incurring while attending institutions of higher education. As Chairman of the Subcommittee, I have been working diligently to make college more affordable. We are tackling that issue as well as trying to ensure that students graduate with the least amount of debt possible, including credit card debt.

Chairwoman Maloney, I am interested in the relationship between institutions of higher education and credit card companies. Many receive revenue from credit card deals. I am curious as to the nature of the deals; how much the credit card companies make from those deals; how they market the cards to the students; and whether the institutions approach the credit card companies or vice versa. We need to find out how widespread the practice is and whether it is national in scope.

As co-founder and co-chair of the Financial and Economic Literacy Caucus, I believe that it is a detriment to our nation's economic prosperity that so many American consumers, especially students, do not properly understand how to manage their money, credit and debt. The goal of the Caucus Ranking Member Biggert and I co-founded and co-chair is to improve the financial literacy rates of all individuals across the United States, especially college students. I look forward to working with her on both this Committee and the Committee on Education and Labor to address student credit card debt.

At this point, I ask unanimous consent to submit for the record a report by U.S. PIRG, entitled "The Campus Credit Card Trap." I also ask unanimous consent to submit for the record a press release from House Education and Labor Chairman Miller on the FTC's New Consumer Guide on Student Lenders' Deceptive Marketing Practices and a copy of that guide entitled "FTC Facts for Consumers: Student Loans: Avoiding Deceptive Offers." One of the guide's recommendations is that students avoid promotions or incentives like gift cards, credit cards, and sweepstakes prizes that would divert their attention from assessing whether the key terms of the loan they are entering are reasonable.

Chairwoman Maloney, I again want to thank you for holding this very important hearing today and applaud you for your legislation and letter and your never ending determination to bring an end to certain credit card practices.

I yield back the remainder of my time.

Congressman Paul Hodes [NH-02] Statement to be submitted to the record on Students and Credit Cards on June 25, 2008

Thank you Chairwoman Maloney for holding this important hearing on students and credit cards.

Many students fall into a cycle of debt, making it impossible from them to break free from payments to credit card companies over their lifetime. Often these students carry this debt into adulthood making it difficult for them to save for a home, children and retirement.

I applaud the work of New York's Attorney General Andrew Cuomo and his nationwide investigation into whether or not credit card companies offered payments or other incentives to colleges in exchange for exclusive access to the institution's students.

The GAO recently reported that student debt continues to rise. Marketing to students has become more and more aggressive. Students receive offers in the mail in addition to on campus. In return for signing up for a new credit card students often get gifts, including t-shirts, hats or mugs. I am curious about the thoughts of this distinguished panel on Senator Menendez's bill, S. 2753. The bill prevents solicitation mailings to consumers ages 18-20 unless they opt-in to credit card solicitation lists, and they can opt-out again until their 21st birthday. I would like their comments in writing.

Thank you Chairwoman Maloney and I look forward to the testimony of the panel.

Debate Statement of the

Honorable Maxine Waters, D-35th CA

Chairwoman, Subcommittee on Housing and Community Opportunity

Financial Institutions Subcommittee Hearing on "Problem Credit Card Practices Affecting Students"

Thursday, June 26, 2008

~~A.M.~~ 2 PM

Room 2128 Rayburn House Office Building

I want to thank Chairwoman Maloney for holding this hearing. I have long been concerned with the marketing practices used by credit card companies to recruit college students as customers, so I look forward to hearing from the witnesses today.

The use of credit cards by college students is clearly on the rise, with a 10% increase just in the six years between 1998 and

2004—the most recent period studied closely by Nellie Mae. Of equal interest are the facts that college students during this period became much more likely to have four or more credit cards—43 percent in 2004 versus 27 percent in 1998—and maintained a higher average balance on their cards.

As a number of witnesses will testify today, this increased use of credit cards by college students is no accident—credit card companies have intentionally focused on this group because they represent one of the few segments of the market that hasn't already been saturated by credit cards. Students are also easy to access given that they tend to live close together. Unfortunately, college students are also especially vulnerable to falling into credit and debt traps. Many have little or no experience with credit before coming to college. At the same time, many are facing crushing student loan debts, and so are less able to withstand additional consumer debt.

Moreover, at college, they are often living alone for the first time, without the support network of family to help evaluate financial transactions such as credit card offers. Meanwhile, one has to wonder how much the universities—whom we might expect to act *in loco parentis* at least to some extent—are going to step in when they receive substantial payments from credit card companies to market on campus. These payments exceed $1 billion per year for the nation's 300 largest universities.

For this reason, some of the marketing tactics described in the testimony I have reviewed are especially troubling. The use of various "gifts" – like food, t-shirts, mugs, or caps—to entice students to sign up for cards, without substantial efforts to educate them about both the benefits and pitfalls of credit, strikes me as problematic. And the intent of credit card companies has to be closely scrutinized given that a 2008 Public Interest Research Group survey reveals that many engage in

devious strategies to evade on campus marketing bans, such as delegating marketing to a vendor or co-opting a student organization. Mr. Thurman's saga of the Subway and Jimmy Johns sandwiches near the University of Illinois, Chicago campus, which I am sure we will hear more about today, is simply an especially ludicrous example of such strategies.

In sum, I think serious consideration must be given to greater state and federal regulation of these marketing efforts, and I look forward to hearing from the State of New York regarding their efforts. Again, this is an important issue and I thank the Chairwoman for her continued efforts to shine a spotlight on various aspects of the credit card industry.

Testimony of Kenneth J. Clayton

On Behalf of the

AMERICAN **BANKERS** ASSOCIATION

Before the

Subcommittee on Financial Institutions and Consumer Credit

Of the Committee on Financial Services

United States House of Representatives

AMERICAN
BANKERS
ASSOCIATION ®

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Committee on Financial Services

United States House of Representatives

June 26, 2008

Chairwoman Maloney and members of the Subcommittee, my name is Kenneth J. Clayton, senior vice president and general counsel of the American Bankers Association (ABA) Card Policy Council, the group within the ABA that deals with card issues. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $13.3 trillion in assets and employ over 2 million men and women.

We appreciate, Madame Chairwoman, the opportunity to appear today to discuss college students' rights as adults to obtain and use credit cards. We certainly acknowledge at the outset that not all students will manage debt in a responsible way, just as not all adults in general will manage debt without experiencing problems. Dealing with debt problems at any age can be very stressful and our card companies do their best to deal with each individual situation quickly to help resolve the problem. However, anecdotes of student problems in the card area fail to paint the real picture that students, as a broader group, are in fact managing their credit obligations well. Importantly, we fear that policy decisions made on the basis of anecdotes will end up hurting the vast majority of young adults who have shown they are capable of managing their finances responsibly. As such, they will be denied the full benefits of a very valuable payment and credit instrument.

It is also important to note that despite their relative inexperience, ***college-age individuals are adults.*** They have the right to contract, work, marry, serve in the armed forces, and vote. They have the right – and responsibility – to exercise independent judgment in these areas, aided by the

educational tools that we in society can provide. We hope policymakers will be mindful to not create artificial barriers to the exercise of these independent choices, recognizing that in creating such barriers, you may be limiting the significant benefits that credit products have to offer for the vast majority of young adults.

In my statement today, I would like to focus on four major themes:

- Credit cards provide an invaluable service to students;
- Students have shown they use credit responsibly;
- Barriers to access will impose hardships on the vast majority of students who have demonstrated they can manage credit card use responsibly; and
- Financial education for young adults is critical to financial success.

I. Credit Cards Provide an Invaluable Service to Students

Credit cards have become an integral, convenient and important part of student life. They are an instant means of payment for purchases; they are safer than cash, accepted more places than checks, and can be used almost anywhere. They provide a flexible and convenient way for students to buy books and other essentials, as well as purchase airline tickets or rent cars. The Government Accountability Office (GAO) in the most recent, comprehensive government study undertaken on student card use found that some 77 percent of students used their cards for routine personal expenses, 57 percent for books and supplies, and 12 percent to pay tuition and fees (though over half of the last category paid their charges in full right away).[1] Clearly, cards have become an invaluable tool for students' everyday needs.

Moreover, credit cards provide a particularly important safety net for emergencies. In that same GAO study, researchers found that 67 percent of students reported that they used their credit cards for occasional and emergency expenses, illustrating the importance of having access to such cards for unexpected circumstances. "Credit cards provided convenience and security and were

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[1] *College Students and Credit Cards.* U.S. Government Accountability Office, June 2001. (GAO-01-773)

especially useful in emergencies, allowing students to pay for unplanned medical expenses or purchase airplane tickets home."[2]

For many consumers, and particularly for students, credit cards are also the point of entry into the world of credit. Credit card use establishes credit histories, which help people to obtain jobs, rent and buy homes, or purchase cars and other big-ticket items. In fact, according to a 2008 study by Student Monitor, 53 percent of college students of who obtained a credit card did so to establish a credit history.[3] Credit histories permit individuals to demonstrate their creditworthiness, and therefore have dramatically expanded access to credit to all members of society in the most efficient, non-discriminatory way possible.

Banks recognize that applying for a credit card may be a college student's first independent experience with the bank and want it to be the start of a positive, life-long customer relationship. As such, banks have a vested interest in responsible underwriting, so as to ensure ongoing customer satisfaction. They establish low credit limits and lower fees, they constantly monitor student accounts, and have instituted significant financial literacy programs. Students also receive a wide range of disclosures on the terms of agreement both in the account-opening procedures and on an ongoing basis. All of these efforts are focused on creating a successful relationship with young adults new to this financial tool.

Banks are also cautious about marketing efforts, generally focusing on depository accounts rather than credit accounts. In fact, checking accounts are typically the lead product for marketing efforts to students, and credit cards are offered as a supplement to this. As a result, the vast majority of credit cards obtained by students come from students visiting the bank branch to begin a broader account relationship. Recent information from one member bank suggests 65 percent of student credit card accounts were opened through banking centers, allowing for important education on financial literacy as a part of interaction with bank staff. The remaining card accounts are opened by students over the Internet, in response to direct mail solicitations, or through telemarketing initiatives. A Student Monitor survey indicated that only 2 percent of students obtained their cards by filling out an application at a display on campus.[4] This reflects the reality that student card accounts are opened through various distribution channels, many of which are not targeted to

2 Ibid. p. 3

3 *Annual Financial Services Study.* Student Monitor, 2008.

4 Ibid.

students at all but members of the general population that share a common characteristic, (e.g., those that open checking accounts or other accounts within the institution). This is not to say that various institutions are not interested in the student market, just that criticism directed at specific marketing techniques tends to overstate the real world experience.

II. Students Have Shown They Use Credit Responsibly

It is perhaps because of banks' focus on a lasting relationship that students have shown that they can use credit more responsibly than the general population. Recent studies have found that student accounts generally have lower balances and lower credit limits, and that students use them less than the general population. And although seventy percent of undergraduates and post-graduates have outstanding debt, the bulk of this debt is from student loans.

Consider the following statistics[5]:

- 41 percent of college students have a credit card.[6]
- Of the students with cards, about 65 percent pay their bills in full every month, which is ***higher than the general adult population.***
- Among the 35 percent that do not pay their balances in full every month, the average balance is $452. This is down 19 percent from 2007. Moreover, this balance is approximately one-third the size of the average balance for active non-student young adult accounts and one-fourth the size of active accounts for older adults.[7]
- 74 percent of monthly college spending is with cash and debit cards. Only 7 percent is with credit cards.

Certainly, there are examples of students who took on more debt than they were ultimately able to manage. But in the vast majority of cases, students are acting responsibly and meeting their obligations. This fact is borne out when examining portfolios of student credit card accounts at banks. These portfolios are considered low-risk, and their performance is better than the general population.

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[5] Ibid.

[6] Previous numbers have been higher. New lower numbers likely reflect the increased use of debit cards and stored value cards.

III. Barriers to Access will Impose Hardships on the Vast Majority of Students Who Have Demonstrated They can Manage Credit Card Use Responsibly

As previously noted, credit cards provide a flexible and convenient way to manage student spending. Students buy books and other student essentials, purchase airline tickets, rent cars and pay for medical and other emergencies with their credit cards. Thus, credit cards represent an important tool for managing both day-to-day needs and unexpected events. Restricting access to this form of credit would result in great financial hardship for most college students ***and their families.***

Notwithstanding that fact, Congress and several state legislatures have introduced legislation that would have the effect of limiting or preventing categories of college students from obtaining a credit card. Some proposals have taken the form of arbitrary limits on available credit. Others have limited the amount of credit available on a single card, or would limit the amount of cards a student may have. Still others would impose liability on lenders who, with the benefit of hindsight, did not make correct judgments regarding the creditworthiness of a student borrower. Such barriers to credit access can create real hardships for students, the vast majority of which have demonstrated their ability to manage their credit cards responsibly.

It is also important to remember that "college students" are hardly a homogenous group. A popular misconception is that the typical college student lives on campus and attends a four-year institution. The fact is that ***only 16 percent of students are full-time undergraduates residing on campus*** – fewer than three million of the more than 17 million students enrolled today.[8] Today's students don't fit the traditional mold: 40 percent study part-time, 40 percent attend two-year institutions, 40 percent are older than 25, and 58 percent are older than 22.[9] While going to school, these "non-traditional" adult college students often work full or part time and many have families. Thus, efforts to regulate access to credit may impose different hardships on different

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[7] Barron, John (Purdue University)and Staten, Michael (Georgetown University), *Usage of Credit Cards Received Through College Student-Marketing Programs*, NASFAA Journal of Student Financial Aid, 2004.

[8] Stokes, Peter J., *Hidden in Plain Sight Adult Learners Forge a New Tradition in Higher Education*, Issue paper for the Secretary of Education's Commission on the Future of Higher Education. 2005.

[9] Ibid.

categories of "students" based on their life situations, and will clearly result in consequences unanticipated to policymakers.

These examples show the difficulty in imposing artificial restraints on the dissemination of credit to a particular category of adult borrower. They also reflect a failure to acknowledge that the vast majority of adult students handle their credit responsibly, making such restrictions unnecessary.

IV. Financial Education for Young Adults is Critical to Financial Success

As has often been noted, the key to responsible card use lies in improvements in financial literacy. Financial education is the key that allows students of all types to unlock their financial future and use many financial tools wisely – credit being just one of these tools. Understanding financial matters is a critical part of success in life, and this work begins in the home and in early school experiences.

Most banks that issue credit cards are engaged in a wide variety of financial literacy and school education efforts, often in partnership with consumer groups, and many of these programs include training for young people using credit for the first time. The U.S. Department of the Treasury is also actively engaged in a nationwide, coordinated effort on financial literacy through the National Literacy and Education Commission. That Commission, created by Congress in 2003 as part of the "Financial Literacy and Education Improvement Act" (Title V of the Fair and Accurate Credit Transactions Act of 2003 [FACT Act]), among other things, encourages government and private sector efforts to promote financial literacy as well as develop a national strategy on the subject. Significant Congressional efforts to promote financial literacy have also been undertaken, the most recent example involving the efforts by the Financial and Economic Literacy Caucus, co-chaired by Representatives Ruben Hinojosa (D-TX) and Subcommittee Ranking Member Judy Biggert (R-IL). In addition, the ABA has also been involved in various financial literacy efforts through our ABA Education Foundation, which sponsors the annual "Get Smart About Credit Day" in October to educate young adults about the proper use of credit. ABA has catalogued many of the efforts of our member institutions to provide financial education to consumers. Go to http://www.aba.com/abaef/gsac.htm for more information. We have also included various learning tools on the site itself in multiple languages, as well as links to related sites with useful information.

The answer then is to train students – and all adults – in the responsible management of credit and, indeed, the wise use of all financial tools. Banks, schools, and policy-makers have been working to accomplish this goal, while at the same time enabling adults to access the products they need in order to carry out daily activities, manage surprise expenses, and establish a credit history that will allow them to purchase an automobile or a home when they graduate. Credit cards are one product that enables students to do this, even though the amount of debt students carry on cards is small compared to their total debt load. Restricting access to this form of credit would result in great financial hardship for most card-holding college students and their families.

Testimony of Benjamin Lawsky

Deputy Counselor and Special Assistant to the New York State Attorney General

For the United States House of Representatives

Committee on Financial Services

Subcommittee on Financial Institutions and Consumer Credit

Washington, DC
June 26, 2008

Thank you Congresswoman Maloney and the members of the Subcommittee for inviting me to testify this afternoon concerning credit card marketing to college students. I commend Congresswoman Maloney's tremendous work on behalf of consumers in this area.

I. College Students and Credit Card Debt

Last year, the New York State Attorney General's Office began an investigation of conflicts of interest and deceptive practices in the student loan industry. The investigation revealed that many lenders paid colleges and universities in return for placement on the schools' lists of recommended lenders, and that some lenders provided gifts, payments, or perks to financial aid officers in order to secure placement on recommended lender lists. Our Office developed a Code of Conduct for lenders and colleges that addressed these conflicts of interest and deceptive practices. The largest lenders in the country, as well as many colleges and universities, committed to this Code of Conduct, and the Code served as the model for new state and federal legislation.

During our investigation of the student loan industry, we learned that the average debt of college graduates has grown dramatically in the past ten years. One study by a student loan company found that average student loan debt has grown 66% in the last decade.[1] The average college student now graduates with $21,000 in debt, and many students graduate with much higher debt loads.[2] This student loan debt is, in many cases, compounded by high interest credit card debt.

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[1] Nellie Mae, *College on Credit: How Borrowers Perceive Their Education Debt*, 4 (Feb. 2003), available online at http://www.nelliemae.com/pdf/nasls_2002.pdf (last visited June 23, 2008).
[2] Project on Student Debt, *Student Debt and the Class of 2006*, 6 (Sep. 2007), available online at http://projectonstudentdebt.org/files/pub/State_by_State_report_FINAL.pdf (last visited June 23, 2008).

Undergraduate students now graduate with an average of more than $2,000 in credit card debt. Students with student loan debt carry a higher-than-average amount of credit card debt -- on average, $2,785.[3] A significant number of students graduate with debt in excess of these averages -- one study found that 23% of students graduate with credit card balances over $3,000.[4] Furthermore, 24% of students responding to one survey reported using credit cards to pay for part of their college tuition.[5]

A. Consequences of Student Credit Card Debt

The image of a graduating college senior striding off the stage at commencement with a degree in his hand is an image of hope and possibility: the new graduate is about to embark on his adult life, finding his first full-time job, setting up his first household, and perhaps buying his first car. But for many young graduates, this time of "firsts" is not a fresh start. Instead of starting adult life with a blank slate, many college graduates are beginning their adult life with a heavy burden of debt and an already marred credit history.

Most students now graduate with significant student loan debt. When high interest credit card debt is added to that student loan debt, the combined debt load can be crippling for young adults who are just joining the work-force.

Heavy credit card debt has serious short-term and long-term consequences for college students. In the short-term, studies report that credit card debt and repayment problems affect students' academic lives, leading to slower progress toward achieving degrees and to lower grade point averages. According to one survey, more than 30% of students reported that credit card debt affected their ability to concentrate on their coursework, and more than 30% reported

[3] U.S. PIRG Education Fund, *The Campus Credit Card Trap: A survey of College Students and Credit Card Marketing*, 6 (Mar. 2008), available online at http://www.uspirg.org/uploads/ym/ir/ymirZbG5OLxH2NPUxQENdA/correctedthecampuscreditcardtrapmar08all.pdf (last visited June 23, 2008).
[4] Nellie Mae, *Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends*, 8 (May

that credit card debt led to decisions to reduce their course load and obtain a job in order to make credit card payments.[6] Another study found that a significant percentage of students with credit card debt reported that they neglected academic work as a result of incurring credit card debt or that they dropped out of school, considered dropping out of school, or reduced their course load due to the financial pressures attendant to heavy credit card debt.[7]

Oppressive credit card debt can also lead to serious repayment problems for college students. When students fall behind on payments, they incur fees and penalties that compound their existing debt and lead to ever-increasing debt levels. In addition, repayment problems lead to damage to students' credit history that has serious and far-reaching ramifications. Renting an apartment may become more difficult for students with damaged credit, since landlords will consider a student=s credit history and may reject or charge higher security deposits to students with damaged credit. Automobile insurance companies, mortgage lenders, and utility companies also consider a student=s credit history and may reject or charge higher rates or premiums to students and graduates with poor credit. In addition, a poor credit history can jeopardize students' employment prospects, since many employers routinely consider credit reports during the hiring process.

Heavy debt loads may also constrict college graduates= choice of career, discouraging students from choosing public sector and non-profit paths. High levels of credit card debt can also hamper graduates= efforts to become self-sufficient and impede progress towards milestones such as purchasing a car or home.

2005), available online at http://www.nelliemae.com/pdf/ccstudy_2005.pdf (last visited June 23, 2008).
[5] Nellie Mae, *Undergraduate Students and Credit Cards*, *supra* note 4, at 6.
[6] David L. Tan, Ctr. for Student Affairs Research, Univ. of Okla., *Oklahoma College Student Credit Card Study*, 25 (Oct. 2003), available online at http://www.ou.edu/education/csar/credit_card/credit_card_report.pdf (last visited June 23, 2008).

B. College Students are Attractive Targets for Credit Card Companies

College students, unlike working adults, do not typically have significant income or assets. However, credit card issuers aggressively market credit cards to college students and regularly extend credit to college students. In addition, credit card companies frequently offer students periodic, automatic credit limit increases that are not tied to increases in students' income or assets.

Despite their typical lack of significant income or assets, college students are an attractive target for banks and credit card issuers for several reasons. First, college students represent one of the only unsaturated markets for credit card issuers. Students entering college are the only adult group in the United States in which the majority does not already have a credit card. One study found that 55% of college students get their first credit card in their freshman year of college.[8] Banks and credit card issuers who successfully market to college students establish an early relationship with students that may last for years. Indeed, one study reports that consumers keep their first credit card for an average of fifteen years.[9]

College students, being less financially savvy than the average consumer, are far less likely to understand the terms of the cards they are offered. Several studies have found that many college students are unaware of the typical fees, including finance charges and over-limit fees, associated with credit cards. One survey, conducted in 2003 at the Ohio State University, concluded that the majority of college freshmen surveyed: (a) did not understand their financial responsibilities for credit card debt, and (b) did not understand that repayment problems would lead to impaired credit histories.[10] Students' financial literacy is significantly deficient in

[7] *Id.*
[8] Creola Johnson, *Maxed Out College Students: A Call to Limit Credit Card Solicitations on College Campuses*, 8 N.Y.U. J. Legis. & Pub. Poly=y 191, 220 (2004).
[9] Johnson, *supra* note 7, at 200.
[10] *See* Johnson, *supra* note 7, at 227-30.

comparison to the general population of adult consumers.[11] For example, the Ohio State survey found that only approximately 40% of OSU freshmen knew that missed or late payments would negatively affect their credit history, as compared to 87% of adult participants in a General Accounting Office survey.[12]

Students= lack of financial literacy makes them more likely to complete credit card applications without considering the consequences of credit card debt and more susceptible to choosing cards with less competitive rates and terms. In addition, students' financial inexperience, together with their lack of regular income, leads student to incur late fees and over-limit fees. Students are more likely than other segments of the population to be delinquent in payments,[13] leading to fees and penalties. Such fees result in significant profits for card issuers.

II. Credit Card Marketing to College Students

A. Direct Mail, Email Solicitation, and Telemarketing

College students, especially first-year students, are inundated with credit card offers. Direct mail solicitations are the most popular way for college students to obtain credit cards.[14] One study reports that college freshmen receive an average of eight credit card offers during their first week of college alone.[15] Another study reports that college students receive an average of nearly five mailed solicitations per month.[16] A significant number of students report receiving multiple telephone solicitations per month from credit card companies.[17]

Banks and other credit card issuers sometimes purchase lists of students= contact information directly from colleges and universities. In other cases, banks and credit card issuers

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[11] *Id.* at 229-30.
[12] *Id.* at 227-28.
[13] Johnson, *supra* note 7, at 224.
[14] General Accounting Office Report, *Consumer Finance: College Students and Credit Cards*, June 2001, at 19.
[15] Johnson, *supra* note 7, at 193.

obtain students' contact information from colleges and universities by entering into agreements with college and university alumni associations that provide the companies with access to current students' information. In some cases, colleges or universities agree to provide continuously updated lists of students= contact information as a term of an exclusive marketing agreement between a credit card issuer and the college or university. These marketing agreements are discussed in greater detail below.

B. Aggressive On-Campus Marketing

Many colleges and universities permit credit card issuers to market to students on campus. Some studies indicate that between 15% and 24% of students with credit cards obtained their credit cards from on-campus representatives or displays.[18] Credit card marketers set up tables in high-traffic spots on campus, such as cafeterias, student unions, bookstores, and other campus buildings. Credit card marketers also set up tables at campus events including freshmen orientation, activity fairs, athletic events, and graduation fairs. Credit card companies pay marketers according to the number of completed applications from students.[19] Some colleges and universities have placed restrictions on campus credit card marketing in response to instances of overly aggressive credit card marketing practices.[20] These restrictions include limitations on the times and locations of credit card marketing on campus. Other schools require on-campus credit card marketers to hand out credit education information along with credit card applications, or to register with the school prior to marketing on campus.[21]

Some colleges and universities provide exclusive on-campus marketing rights to particular banks or credit card issuers in return for payments to the college or university. In

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[16] U.S. PIRG, *supra* note 3, at 4.
[17] *Id.*
[18] GAO Report, *supra* note 14, at 19.
[19] GAO Report, *supra* note 14, at 27.
[20] *Id.*

some cases, a college or university sells exclusive marketing rights to a bank or credit card issuer to an entire campus building, such as the student union. In those cases, the bank or credit card issuer has exclusive rights to market credit cards in the school=s student union or other campus building. In other cases, colleges and universities sell banks or credit card issuers the exclusive right to telemarket or use other means of promoting credit cards to current students.

C. Offering "Free Gifts" in Return for Credit Card Applications

On-campus marketing to college students deliberately employs marketing methods that influence financially unsavvy students with little or no credit experience, such as providing free gifts including tee-shirts, sweatshirts, caps, frisbees, calculators, or food, usually in return for filling out a credit card application on the spot. One credit card company offered college students free rides across campus in Abicycle-taxis@ in return for watching a DVD pitching the company=s credit cards. Most on-campus marketers require students to turn in an application on the spot in order to obtain the give-away. Some on-campus marketers encourage students to fill out applications even when students indicate that they are not interested in a credit card, telling students that they can simply cut up the card after they get their free gift.

Credit card companies' offers of free gifts distract financially unsophisticated students from considering the terms of the credit cards offered and the risks and costs of incurring credit card debt. The majority of college students sign up for credit cards with on-campus solicitors simply because they want the free gifts.[22] Furthermore, this type of on-campus marketing targets the least financially savvy students. Freshmen are more likely than upperclassmen to be motivated to fill out a credit card application by a free gift offer. Furthermore, several studies have found that students who obtained credit cards as a result of on-campus solicitation are more likely to have repayment problems, carry higher unpaid balances, have higher debt-to-income

[21] *Id.* at 28.

ratios, and/or have more credit cards than students who did not obtain their cards from on-campus vendors.[23] In addition, studies have shown that many students who are approached by credit card marketers on-campus mistakenly believe that their school supports the credit cards in some way or that the school screens credit card companies that solicit on campus.[24]

D. Using Students to Market Credit Cards to Peers On Campus

Credit card companies frequently use college students to market credit cards to their peers on campus. Credit card companies often reach out to fraternities, sororities, and other student groups and pay student marketers based on the number of applications that the students collect from their peers. This marketing method relies on peer pressure and leads to credit card marketing in dormitories, dining halls, fraternity houses, and other student spaces where there is little or no oversight of the marketing practices employed.

E. Exclusive Marketing Agreements with Colleges and Universities

Hundreds of colleges and universities across the country have entered into confidential, exclusive agreements with credit card issuers under which the credit card issuer is given exclusive rights to market its credit card to students at that college or university. These contracts can be extremely lucrative, leading to payments of millions of dollars at some colleges and universities. Several of the nation=s largest public universities, as well as a number of prominent private colleges and universities, have entered into such agreements. In some cases, credit card companies enter into exclusive marketing agreements with college and university alumni associations that include exclusive rights to market credit cards to current students as well as alumni. In addition, some college and university athletic departments have entered into

[22] *See* U.S. PIRG, *supra* note 3, at 3; Johnson, *supra* note 7, at 220.
[23] Johnson, *supra* note 7, at 224.
[24] Johnson, *supra* note 7, at 224-25; Jill M. Norvilitis and Phillip Santa Maria, *Credit Card Debt on College Campuses: Causes, Consequences, and Solutions*, College Student Journal, Volume 36, Sept. 2002.

agreements with credit card companies that grant credit card companies rights to market at sports events and, in some cases, to market cards bearing the sports= team name and/or logo.

In many cases, exclusive marketing agreements between schools and credit card issuers include a requirement that the college or university provide continuously updated student information to the credit card company for use in credit card marketing, including students= dormitory telephone numbers and addresses, permanent addresses, email addresses, or other information. The agreements also may include terms whereby the college or university agrees to promote the bank or credit card issuer=s credit cards to its students in the college or university=s own mailings to students, to permit the bank or credit card company to send direct mail and/or to telemarket to students, and to permit the bank or credit card issuer access to campus and/or athletic events for marketing.

Under many exclusive agreements, the college or university also grants the credit card issuer a license to use the college or university=s name and logo in connection with the marketing of credit cards. The cards may be marketed as AThe X University Card,@ and are often branded with the college=s or university=s name, colors, and logo. These Aco-branded@ or Aaffinity@ cards foster the generally false impression that the college or university evaluated the terms of the cards offered and determined that the co-branded credit cards offer the best, or among the best, rates and terms for the college or university=s students.

The Attorney General=s investigation of the student loan industry revealed that students and families rely heavily on recommendations from their colleges when they choose borrowing options. We found that the vast majority of students select a student loan provider based on their school=s financial aid office=s recommendations. Students trust their schools and believe that their schools recommend particular lenders based on an evaluation of the lender. Similarly, students trust their schools= recommendations concerning credit cards and believe that the

student credit cards that bear their college=s or university=s name and logo have been vetted by their college or university and that the cards offer the best rates and terms. However, colleges or universities are entering into exclusive marketing agreements without evaluating the rates and terms of the credit cards marketed to students pursuant to the agreements. In many cases, colleges or universities enter into marketing agreements based on the payments to the college or university, not because the cards offered the best, or among the best, terms for students. Furthermore, these co-branded cards may incorporate troubling terms such as provisions that interest rates can be increased at any time and for any reason, universal default, or high late or over-limit fees.

Colleges and universities are often paid significant sums, sometimes millions per year, under these "co-branding" or "affinity card" agreements. In some cases, schools receive a set dollar amount for each student applicant as well as additional payments based on credit card usage.

Exclusive marketing agreements between colleges and universities and credit card issuers are not, in and of themselves, detrimental to college students. In fact, exclusive marketing agreements between schools and credit card issuers that limit marketing of credit cards to a particular credit card issuer may benefit students at that school, as long as the credit cards marketed pursuant to that agreement offer competitive rates and fair terms. In fact, there is an opportunity here for schools to play an important "gate keeper" role: if colleges and universities evaluate the interest rates and other terms of the cards offered and choose cards that offer the best or among the best rates and that do not incorporate problematic contractual terms and conditions, students could actually get safer credit cards through their school affinity credit card programs than through other marketing channels.

III. Curbing Aggressive Marketing to College Students

The New York Attorney General=s Office is currently investigating credit card companies' aggressive marketing practices with respect to college students and the relationships between colleges and universities and credit card companies. The Office is currently working to develop a Credit Card Marketing Code of Conduct for colleges and universities that will resolve certain conflicted practices that we uncovered and will provide best practices related to exclusive credit card marketing agreements between schools and credit card companies and other on-campus credit card marketing.

Federal legislation could have a significant positive effect in this area by requiring colleges and universities to place restrictions on credit card marketing on campus, such as limiting credit card marketing to appropriate times and locations (*e.g.*, prohibiting credit card marketing in dormitories or classrooms) and prohibiting the practice of offering free gifts in connection with credit card marketing to college students. Federal legislation could also require colleges and universities to provide students with the opportunity to opt out of having their contact information shared with credit card companies for marketing purposes. In addition, federal legislation could require colleges and universities to provide effective consumer education courses to students concerning the costs and risks of credit card debt. Finally, federal legislation could address the problems related to exclusive marketing agreements between credit card issuers and colleges and universities by requiring colleges and universities who enter into such agreements to adhere to standards such as those that will be set out in our office's Credit Card Marketing Code of Conduct.

Testimony of the

U.S. Public Interest Research Group
and the
Student Public Interest Research Groups

Christine Lindstrom
Higher Education Project Director

Hearing On
College Students and Credit Cards

Before the Subcommittee
On Financial Institutions and Consumer Credit
Of the Financial Services Committee,
U.S. House of Representatives
Honorable Carolyn Maloney, Chair

June 26, 2008

Chair Maloney, ranking member Biggert, members of the committee:

Thank you for the opportunity to offer U.S. PIRG's and the Student PIRG's views on college students and credit cards. We commend you for having this timely hearing. I am Chris Lindstrom, Higher Education Project Director at U.S. PIRG and the affiliated Student PIRGs. As you know, U.S. PIRG serves as the federation of and national lobbying office for state Public Interest Research Groups. PIRGs are non-profit, non-partisan public interest advocacy organizations with offices around the country. We take on powerful interests on behalf of our members and other consumers. The Student PIRGs work on college campuses to promote the public interest agenda in combination with a robust civic training program for students.

(1) SUMMARY:

As you know, Madame Chair, U.S. PIRG supports your bill HR 5244, the Credit Cardholders Bill of Rights, as a good, measured first step and strong step forward to reforming the credit card industry.

We also support amendments to the legislation to protect student consumers from unfair credit card marketing and excessive credit card debt, since our research has documented that students are targeted, indeed, bombarded by credit card company solicitations, in the mail, on the phone and while they are walking across campus.

Further, our Higher Education Project has documented that excessive, high-cost credit card debt has exacerbated the crisis students already face from the rising costs of education. Our project has focused on several areas where education costs are skyrocketing. As states have cut college budgets, students are increasing burdened with educational debt. In addition, textbook costs as well as other ancillary costs continue to increase, causing students to become reliant on their newly acquired lines of credit to offset those costs.

It is our view that students, like other adults, should receive the credit that they qualify for, and not be granted special "automatic qualification" for a credit card solely because of their student status. We also believe that colleges and universities should adopt principles on the marketing of credit cards on campus. These include the following, among others: Only cards with fair terms should be marketed on campus; On-campus "tabling" days should be limited; Credit card companies should be prohibiting from offering free gifts in return for students filling out credit card applications; schools should not enter into agreements where student names are shared or sold, directly or indirectly, with credit card companies; student groups and universities should not receive compensation from credit card companies for marketing to students.

In this testimony, we also elaborate on the findings of our recent report, the Campus Credit Trap, based on a survey of over 1,500 students nationwide between October 2007 and January 2008. The 2008 PIRG study of campus credit card marketing found that students support a variety of reforms: We asked students their views on whether colleges and universities should regulate the practices of credit card companies on campus. The results show that students overwhelmingly support stricter regulation of campus credit card marketing. Four out of five (80%) students supported adoption of strong campus credit card marketing principles. Only 1 in 5 students replied yes to the proposition that students could handle credit card marketing without regulation. Some of these also supported some of the reform principles anyway. Of those who supported one or more strong principles, nearly three-in-

four students (74%) asserted that only cards with fair terms and conditions should be marketed on campus. Students also overwhelmingly (67%) opposed the sale or sharing of student lists (which can include home and dorm addresses, email addresses and land line and cell phone numbers) with credit card companies.

(2) WHY COLLEGE STUDENTS ARE CRITICAL TO THE INDUSTRY'S PROFITABILITY STRATEGY

Credit card lending is consistently the most profitable form of lending, according to the Federal Reserve's most recent report to Congress in 2007:

> Although profitability for the large credit card banks has risen and fallen over the years, credit card earnings have been consistently higher than returns on all commercial bank activities. For example, for all commercial banks, the average return on all assets, before taxes and extraordinary items, was 2.01 percent in 2006, well below the returns on credit card activities in that year.[1]

In recent years, those profits have been augmented by rapid increases in fee income.

Yet, there is tremendous pressure from headquarters for their credit card divisions to increase profitability even higher. The companies can do this in three main ways.

First, the companies can squeeze existing customers with punitive interest rates and unfair fees and tricks and traps designed to increase spending. In response to some of the worst excesses of the industry, the Federal Reserve Board and two other regulators with authority to enforce the Federal Trade Commission Act have proposed new regulations similar to provisions in your bill, HR 5244, that ban the industry's worst practices, such as imposing retroactive interest rate increases after a consumer is one day late or has paid an unrelated bill late (universal default) as unfair and deceptive. For regulators, these are astonishing proposals that go well beyond previous modest disclosure requirements and confirm that the industry's practices are out-of-control.[2] The industry also uses a variety of "rewards," "skip-a-month" plans and distribution of "convenience checks" (that act as cash advances) as ways to increase spending on existing cards.

Second, the industry aggressively seeks to get customers of other credit companies to switch to their cards, with zero-percent balance transfer offers and other teaser rates. "An industry source indicates that in 2004, 71 percent of US households received an average of 5.7 offers per month, or 58 offers/year.[3] During 2004, US households received an estimated 5.23 billion credit card offers, up 22% compared to 2003 and exceeding the previous record of 5.01 billion offers set in 2001.[4]" While some recent reports indicate these offers may be down due to the economic slump, it is likely that this is temporary and banks will restructure the offers and start making them again. Remember that offers are made both to people with positive credit attributes and to people with negative attributes. The offers are simply different.

Finally, the industry seeks completely new customers. In addition to immigrant populations that have traditionally not used credit cards, college students are the key target. They are young and understand that they need credit to get ahead in the world. Some need credit because of the rising cost of a college education. Finally, most of them are clumped together on campuses that they

either commute to or live at. This makes them easy to target. Companies use a variety of techniques, from buying lists from schools and entering into exclusive marketing arrangements with schools to marketing directly to students through the mail, over the phone, on bulletin boards and through aggressive on-campus and "near-campus" tabling-- facilitated by "free gifts."

College students, under regular credit criteria, would not be able to get a card because they have no credit history and little or no income. But the market for young people is valuable, as industry research shows that young consumers remain loyal to their first cards as they grow older. However, the overall debt burden facing students as a result of their education continues to grow. Now, credit card marketing, coupled with students' lack of financial experience or education, leads many students into serious debt.

As states have pulled back on funding for higher education more of the cost of college has fallen on the shoulders of students. Two-thirds of college students graduate with loan debt, averaging nearly $20,000. According to a PIRG study, the Burden of Borrowing, credit card debt exacerbates skyrocketing student loan debts. That 2002 study found that student borrowers were student borrowers were even more likely to carry credit card debt, with 48% of borrowers carrying an average credit card balance of $3,176.[5] Another PIRG study, Paying Back, Not Giving Back: Student Debt's Negative Impact on Public Service Career Opportunities[6], from April 2006, found that more than 23 percent of all four year public and 38% of private college graduates have too much debt to manage as a starting teacher.

While some of the reforms we discuss below from our report the Campus Credit Card Trap may more appropriately be considered on campus, this committee should consider amendments to restrict marketing to youth in the following ways:

Ban giving credit cards to young people who cannot demonstrate an ability to re-pay. Bank witnesses and spokespeople have largely admitted that even though young applicants do not have adequate credit reports to qualify for cards, their mere "status as students" is an adequate criterion for approving a card. This is unacceptable. Banks should underwrite credit cards for students and young people, just as they do for all other applicants. It may be appropriate to substitute completion of an approved, legitimate financial literacy class as an alternate criterion. It may also be appropriate to restrict the credit card limits and maximum number of cards available to young people. A variety of bills make proposals in this area and we would be happy to work with the committee and student groups on the best amendment.

Ban Marketing Cards To Young Consumers Unless They Opt-In To Receive Solicitations. A broad credit card reform proposal, S 2753, the Credit Card Reform Act, by Senator Robert Menendez includes this laudable provision. In the 2008 PIRG study, 8 of 10 students reported receiving mailed offers from credit card companies.

(3) RESULTS OF OUR SURVEY: THE CAMPUS CREDIT CARD TRAP

The Campus Credit Trap report, available at our website truthaboutcredit.org[7] is based on an in-person survey of a diverse sample of over 1,500 students, primarily single undergraduates, at 40 large and small schools and universities in 14 states around the country conducted between October 2007 and February 2008. It analyzes how students pay for their education, how many use

and how they use credit cards and, as an important goal of the survey, their attitudes toward credit card marketing on campus and whether or not they support principles to rein in credit card marketing on campus.

The findings confirm that students are using credit cards in significant numbers and that a significant number are paying the price through late fees, high balances and delinquencies. The findings also show that banks are marketing aggressively to students through a variety of channels. Finally, the findings demonstrate that an overwhelmingly majority of students support limits on credit card marketing on campus to rein in unfair bank practices.

Students Support Campus Marketing Principles
We asked students their views on whether colleges and universities should regulate the practices of credit card companies on campus. The results show that students overwhelmingly support stricter regulation of campus credit card marketing. As Table 1 shows, four out of five (80%) students supported adoption of strong campus credit card marketing principles. Only 1 in 5 students replied yes to the proposition that students could handle credit card marketing without regulation. Some of these also supported some of the reform principles anyway.

Of those who supported one or more strong principles, nearly three-in-four students (74%) asserted that only cards with fair terms and conditions should be marketed on campus. Students also overwhelmingly (67%) opposed the sale or sharing of student lists (which can include home and dorm addresses, email addresses and land line and cell phone numbers) with credit card companies.

Students Describe Campus Marketing Tactics
On-Campus and Near-Campus Tables: Three of four students (76%) reported stopping at tables to consider offers or apply for credit cards. The best way to get students to stop at tables appears to be to offer a "free gift," of either nominal or real value. Of course, the catch is that the free gift is conditioned on completing a credit card application. As we note in Table 2, there are a wide variety of free gifts being offered. While some are of nominal value, the high level of responses in the "Other" category for pizza or "Subway sub" sandwiches or "free food" suggest that credit card companies and their subcontractors are taking advantage of students' chronic cash shortages to attract them to tables with offers of the instant gratification of free food, then getting them to sign up for cards that ironically may contribute to later cash problems.

At the same time as many gifts are low-cost or of nominal value, including cheap t-shirts, Frisbees and desk toys as well free lunch coupons, respondents noted a wide variety of gift values. Some firms are offering gifts of substantial value, including pre-loaded gift cards worth $10-$25, or in one case, an iPod shuffle (worth approximately $49 retail according to Internet sites).

<u>Mail and Phone Marketing:</u> Fully 80% of respondents said they received mail from card companies. Students reported receiving an average of nearly five (4.8) mailed solicitations per month. However, a number of students simply reported "hundreds." In addition, 22% of students reported receiving an average of nearly four (3.6) phone calls per month from credit card companies.

How Students Pay for Education
Fully 61% of students relied on parents for some or all of their educational costs. The next most common sources of income reported were scholarships (40%), student loans (38%), summer jobs (32%) and part-time jobs (29%).

How Students Report They Use Cards
Nearly two-out-of-three (66%) students reporting having at least one credit card. Thirty percent (30%) reported that for their primary card, they were either a co-signer or their parents paid the bill. Of remaining students paying their own bills, just over half of the remainder reporting (36% of the total) stated that they paid their own primary card bills in full each month. The other half of students paying their own bills, (34% of the total) stated that they carried a balance on their primary card.

When asked how they used their cards, a question for which multiple entries were allowed, more than half (55%) reported that they used them for "day-to-day-expenses. The same number (55%) reported using them for books. The next highest categories reported were "weekends and pizza" and "emergencies" but very few consumers limited their response to "emergencies."

In an important finding, nearly one-quarter (24%) reported that they had used their cards to pay for college tuition.

How Students Report Credit Card Debt and Credit Card Late Fees and Delinquency
Seniors ($2,623) responsible for their own cards who reported carrying credit card debt had more than double the debt reported by freshmen ($1,301).

Defaults: In addition, students (Seniors, $4,116; Freshmen, $2,450) responsible for their own cards who reported that they had previously defaulted on a credit card had much higher credit card balances than those who had not had a previous default.

One in four respondents (25%) reported they had paid at least one late fee and 15% reported they had paid at least one over-the-limit fee. Over 6% of respondents reported that at least one card had been cancelled for non-payment. Nearly one in five (19%) had cancelled a card themselves in good standing. (These figures include all students, including those whose parents now pay for their primary cards or who claim to carry no balances on their primary cards.)

(4) U.S. PIRG'S CAMPUS CREDIT CARD MARKETING PRINCIPLES

The results of the survey support the recommendations of the truthaboutcredit.org campaign launched by U.S. PIRG Education Fund to get colleges to adopt fair campus credit card marketing principles. These principles are the following:

1. Prohibit use of gifts in marketing on campus.
Credit card banks, issuers, and vendors shall be prohibited from offering anything of value, including food, clothing, sports equipment, travel vouchers, coupons, or equivalents, for purposes of soliciting an application for a credit card on campus. In addition, credit card banks, issuers and vendors are prohibited from offering financial support or other goods and services to any campus employee or campus department in exchange for marketing privileges.

2. Control passive marketing techniques.
Posters and flyers shall comply with college posting regulations. Credit card banks, issuers and vendors shall be prohibited from leaving their marketing materials posted or displayed for longer than the posting regulations that govern the campus.

3. Block acquisition of student lists.
Purchase (or sharing as a condition of exclusive marketing arrangements) of student lists shall be prohibited on campus. Credit card banks, issuers and vendors are prohibited from purchasing or otherwise acquiring lists of students of any kind currently enrolled at the campus. If state law on public records is subject to interpretation on whether detailed student information is a public record, schools should interpret it in favor of privacy. If state law makes student lists public records subject to full disclosure, then policymakers should consider changes. The purpose of open government laws is so that citizens can evaluate the effectiveness of their government, not so that students can be targeted by credit card companies. At a minimum, as an interim step, universities should only sell lists after students have opted-in to agree to have their names shared.

4. Stop group sponsorship. Student group or departmental sponsorship shall be prohibited. Credit card banks, issuers and vendors are prohibited from negotiating deals with student groups and other campus departments such that the student group or department will receive financial support or any other goods and services for applications collected on behalf of a credit card company.

5. Increase financial education. Financial education shall be enhanced on campus. Colleges and universities shall increase resources to support training and educational programs that increase students' consumer awareness and ability to navigate issues of student debt responsibly.

6. Credit card contractual terms and conditions that take advantage of students as consumers shall be discouraged.
Colleges and universities should discourage specific credit card terms that take advantage of the consumer. Such practices include universal default – where a company will increase a consumer's interest rate based on her payment record on another account not associated with the card; hidden fees – where a company does not disclose certain fees for paying by phone or ordering a copy of a bill; mandatory arbitration – where the consumer gives up the right to legal action against the company; changing contracts – where the company reserves the right to change all terms on the credit card at any time for any reason; and penalty interest rates above 20% that stay in place indefinitely.

(7) CONCLUSION

We thank you for holding this important oversight hearing on college students and credit cards. We look forward to working with committee members to incorporate provisions into HR 5244, the Credit Cardholders Bill of Rights, to directly address marketing to college students.

ENDNOTES

[1] Report to the Congress on the Profitability of Credit Card Operations of Depository Institutions Submitted to the Congress pursuant to section 8 of the Fair Credit and Charge Card Disclosure Act of 1988 July 2007, available at http://www.federalreserve.gov/boarddocs/rptcongress/creditcard/2007/default.htm, last visited 16 April 2007.
[2] Press release, 2 May 2008, Fedeal Reserve Board, available at http://www.federalreserve.gov/newsevents/press/bcreg/20080502a.htm (last visited 2 June 2008).
[3] Report to the Congress on the Profitability of Credit Card Operations of Depository Institutions Submitted to the Congress pursuant to section 8 of the Fair Credit and Charge Card Disclosure Act of 1988 July 2007, available at http://www.federalreserve.gov/boarddocs/rptcongress/creditcard/2007/default.htm, last visited 16 April 2007.
[4] According to Mail Monitor, the direct mail tracking service from Synovate.
[5] See "The Burden of Borrowing," the State PIRGs' Higher Education Project, March 2002, available at http://www.pirg.org/highered/highered.asp?id2=7972
[6] See Paying Back, Not Giving Back: Student Debt's Negative Impact on Public Service Career Opportunities, U.S. PIRG Higher Education Project, 1 April 2006, available at http://www.uspirg.org/home/reports/report-archives/affordable-higher-education/affordable-higher-education-reports/paying-back-not-giving-back--student-debts-negative-impact-on-public-service-career-opportunities (last visited 25 June 2008).
[7] "The Campus Credit Card Trap: A Survey of College Students and Credit Card Marketing," Edmund Mierzwinski, Consumer Program Director, with Christine Lindstrom, Higher Education Project Director, The U.S. Public Interest Research Group Education Fund, March 2008, available at http://www.truthaboutcredit.org (last visited 22 June 2008).

NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

Partnering for Financial Well-Being

Testimony of

Brent A. Neiser
Director of Strategic Programs and Alliances
National Endowment for Financial Education (NEFE)

Before

The Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit
of the
United States House of Representatives

Regarding

"Problem Credit Card Practices Affecting Students"

June 26, 2008

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I am Brent Neiser, Director of Strategic Programs and Alliances for the National Endowment for Financial Education® (NEFE®), located in Greenwood Village, Colorado. We at NEFE would like to thank Representative Carolyn B. Maloney, Chair, and members of the Subcommittee, for scheduling this hearing and providing members of the financial literacy community the opportunity to share our experiences, to explore with you ways to help students that are adversely affected by credit cards and consumer debt, and to prevent future problems in this area.

The National Endowment for Financial Education is perhaps the only national, privately operating foundation wholly dedicated to improving the financial well-being of all Americans. NEFE is an independent, nonprofit, and nonpartisan foundation committed to educating Americans on a broad range of financial topics and empowering them to make positive and sound decisions to reach their financial goals. For more than 30 years, NEFE has been providing funding, logistical support, and personal finance expertise to develop a variety of materials and programs, including the award-winning NEFE High School Financial Planning Program®, the new CashCourse college program, and the consumer-oriented Smart About Money public awareness Web site. NEFE funds research and awards research-based development grants that advance innovative thinking and contribute to our understanding of financial behavior. NEFE also serves segments of the American public in need of specialized financial information through partnerships with numerous organizations.

The Strategic Programs and Alliances department has developed financial education and awareness materials through collaborations with many organizations, including the American Indian College Fund, Hispanic Scholarship Fund, United Negro College Fund, and the National Collegiate Athletic Association. More recently, NEFE has developed CashCourse, a free, online, just-in-time financial education resource for every stage of college life. It features unbiased, noncommercial, relevant content to address an emerging long-range range problem of students immersed in debt. According to the U.S. Department of Education and Demos, two-thirds of all undergraduates borrow money to pay for college. The average undergraduate today leaves campus with just over $19,000 in student loans. One in four grads will carry more than $25,000 (www.demos.org, 2006). On top of that, half of all graduates in 2004 used credit cards for school expenses, carrying an average balance of $3,900 (American Council on Education, June 2005). Because of this debt, it's estimated that between 1.4 million and 2.4 million bachelor's degrees will be lost as financial concerns prevent students from the lowest income bracket from attending college (Advisory Committee on Student Financial Assistance with data provided by the U.S. Department of Education).

CashCourse was developed less than a year ago to specifically target college-age students on campuses across the country. So far over 125 schools are signed up, with over 100 more enrolled with outstanding agreements. This turnkey program allows universities to provide students with the information and resources necessary to cultivate positive money management habits that will last a lifetime. NEFE is providing and maintaining this service at no cost to community colleges and four-year colleges and universities alike. It is our intention to extend this initiative beyond the student community to peer groups who are not in college, including those who are in the military. We are actively pursuing this.

Background

Many of today's college students are facing an oncoming personal finance crisis in which the opportunity for positive engagement in the United States financial mainstream is being threatened by a culture of ignorance, peer pressure, and intense marketing tactics.

The additional burden of consumer debt is layered upon student loans and other costs that are significant to this population: expenses related to transportation, housing, and job preparation. All these areas

often mask the opportunity to highlight the positive side of the time value of money. Einstein called this power of compound interest the Eighth Wonder of the World, and it certainly is powerful. The problem, however, is that depending on how one manages his or her money, sets goals, delays gratification, and becomes financially aware, the power of compound interest can work for you or against you. Unfortunately, many young adults are not accumulating interest by saving and investing; rather, they are paying interest on these many debts.

The lack of participation in the numerous defined contribution and IRA programs that Congress has established is truly a problem. By not taking advantage in the early years of one's career or prematurely raiding these accounts despite penalties and tax consequences, young adults subject themselves to a lifetime of financial struggle, including a retirement saving paralysis. Though these consequences are imperceptible at first, poor decision making at a young age carries with it an erosion of purchasing power and a decline in financial stability in the long run.

Financial decision making certainly carries consequences at a personal level. But consider the cumulative effect of those circumstances and choices for millions of emerging households on the long-range financial security and strength of the nation's tax base, its national competitiveness, and demands on the social service structure of the non-profit sector and all levels of government.

There are several encouraging developments on the horizon that can be effective if paired with a healthy financial environment, a clear understanding of the power of compounding, the thoughtful use of credit, and a level of commitment to help foster the behavioral change that will help college students and other Americans avoid unnecessary debt.

We suggest five key areas that are the foundational elements for building a balanced approach to responsible credit management:

1. Financial Education
2. Disclosure
3. Defaults
4. Public Awareness
5. Culture of Commitment

Financial Education

As a nonprofit, noncommercial, nonpartisan, private operating foundation, the National Endowment for Financial Education believes that Americans can increase their financial capacity and capability through various components of financial education, including classes, small groups, and one-on-one counseling. By creating CashCourse, an online Web resource, NEFE is meeting the demand for just-in-time financial information and resources for college students who are facing large-scale decisions on campuses nationwide. CashCourse is linked to from financial aid, student affairs, career services, and alumni association Web sites to give ongoing support, even after college.

CashCourse is an easily-implemented, unbiased and noncommercial financial education solution for colleges, universities, and alumni associations to offer their students, many of whom are living away from the guidance of their parents. College is often a time when many students make unwise financial

decisions due to lack of financial knowledge. This deficiency can lead to financially irresponsible or uninformed behaviors, such as getting into debt, which can extend well beyond their college years. Increasing concern over this issue has lead to the joint effort between NEFE and universities to fill in the missing gaps of financial knowledge that many college students have.

Support and enthusiasm for financial education varies widely among campuses, but the issues surrounding credit often captures the attention of students, staff, parents, alumni, donors, and state legislatures. It's one of the issues that helped make our High School Financial Planning Program especially effective, as over 5 million students have learned about credit cards, budgeting, the time value of money, risk management, and setting goals through the program. CashCourse seeks to do the same thing as an ongoing no-cost Internet platform that is co-branded with higher education institutions and that gives them the convenience, credibility, and standing to create a culture of financial concern and responsibility.

Disclosure

Credit cards offer convenience, safety, and the opportunity to build good credit. But the critical disclosures at both the point of purchase and the point of payment are lacking clarity and inventiveness. For this generation, electronic disclosure in addition to printed statements is necessary. We'd like to see the teachable moments exploited at the time when a payment is made on the card balance. The power of compounding should be shown in such a way as to lay out the decision: One can choose to pay the minimum, pay a greater portion of the balance, or pay it off in full, each presented with a realistic dollar-based outcome. The Federal Reserve's work in the consumer testing and design of new disclosures is a much-anticipated step in providing realistic, clear, and comprehensible information to the consumer.

Because of the Bankruptcy Reform Act, in 2009 the Federal Reserve will be requiring credit card companies to display personalized scenarios on credit card bills. These scenarios would reveal the consequences of only paying the minimum payment in terms of years and total costs associated with that choice.

There is an alternative, permissible, non-personalized scenario that credit card companies may elect instead. This option shows a standard disclosure: For example, a scenario could be shown where a minimum payment is made on a $1,000 outstanding balance at a certain interest rate. With this option, too, the total time and cost of the credit card balance until it is paid off is presented. This non-personalized option will be coupled with information and an offer for consumers to use a new Federal Reserve Web site or toll-free number where consumers can interact with scenarios that involve different payoff timeframes so as to get the answers they need—namely, the amount they would have to pay and how long it will take until the debt is satisfied.

Each of these tools will need to be promoted.

Defaults

Defaults, if set properly, are successful as we have seen with the opt-out settings for defined contribution plans supported under the Pension Protection Act. These behavioral finance techniques often nudge consumers in the direction of their best interest. In this culture of consumerism, overspending, and personal debt, college students and all Americans need all the gentle nudging they can get. We suggest two defaults be put in place in regard to credit cards.

First, convenience checks are offered to credit card users, and we suggest that these be placed on a defaulted opt-in basis. Second, credit offers through affiliate sharing agreements currently are exempt from the Federal Trade Commission's toll free number (1-888-5-OPTOUT), which consumers can call in order to block pre-approved credit offers. We'd like that changed so that *all* unsolicited credit offers can be blocked by consumers at their discretion.

Public Awareness

Unlike the efforts to reduce smoking, cut down on obesity, encourage civic and voluntary participation, increase tolerance, and promote safety and disaster preparedness, coordinated and targeted messages for healthy financial services practices are few. Increasing awareness and improved messaging about credit scores and credit reports in the private and nonprofit sectors have helped illustrate the potential consequences of credit inattention and abuse. Yet students and emerging households (many of whom do not attend four-year institutions) in their teens and twenties are basing their personal financial habits and practices on the behavioral patterns of their peers and the influences of media. Creating a culture of personal financial management and control can emerge through public awareness and social marketing campaigns. Among this age group, network and social marketing should be considered.

Culture of Commitment

College and university administrations need to create a culture of personal financial awareness, learning, and responsibility. This sends the right signal to taxpayers, private donors, state legislators, parents, and most of all, to the students whose financial choices—when made now—will either expand or constrict opportunities in the future. We suggest consistent credit card reform: new regulations should be universally applied so that there is one standard for students, non-students, and Americans of any age group or demographic. This allows people to understand one system that has the power of disclosure and default settings.

Attention and action needs to take place in all five areas—financial education, disclosure, defaults, public awareness, and creating a culture of commitment—from all sectors of society in order to empower Americans to embrace a culture that is moving towards thrift and ownership of their financial future.

The National Endowment for Financial Education stands ready to assist the House Financial Services Committee with additional information or insight. For further information on NEFE's previous testimony before the Financial Services Committee on broader financial education issues, see the September 28, 2006 testimony of Ted Beck, NEFE's President and CEO, available at www.nefe.org.

Thank you.

Attachments: Kansas City Star Article
Brent Neiser Resume

Ladies and gentlemen of the Subcommittee on Financial Institutions and Consumer Credit, thank you for this opportunity to speak before you today. I wish to tell you one simple story that will encapsulate the state of affairs at my school, the University of Illinois at Chicago, better known as UIC. This story includes a school determined to help protect its students from harmful credit card and borrowing practices, and the market based reactions of credit card companies to overcome such steps.

UIC is a school of approximately 25,000 students, nearly 16,000 of which are undergraduates. As the Chicago campus of the University of Illinois, UIC offers one of the most competitively priced college educations available. As a result we attract a wide variety of students, nearly 1/3 of which are determined by federal standards to be eligible for the PELL grant to assist with their educational expenses. As the state of Illinois follows national trends in increased tuition rates and lowered state support for higher education, our students are forced to search in more locations for a means by which to finance not only their tuition payments, but also basic living expenses such as food, books, laundry, and transportation. Unfortunately, this has led many students to turn to credit cards as a seemingly simple way to pay for the essentials of a college education. The negative effects of this practice, as well as the way in which credit card companies respond, are and will continue to be felt not only by individual students and graduates, but also their families, and the communities they become a part of.

The University of Illinois at Chicago has strict policies and regulations in place that prevent the marketing of credit cards on campus. No credit card companies are permitted to solicit information from students on campus, nor are they allowed to offer giveaways or even host informational booths. In response to these policies, credit card companies such as Discover have developed interesting methods to market themselves to UIC students. As an urban campus, the buildings of UIC are spread across more than a mile of the Chicago landscape, and specific university property lines are interspersed with small neighborhoods that are home to communities that offer housing, entertainment, and restaurant options to students. One such restaurant is a Subway store, located not less than 3 blocks from the nearest university building.

During the first two weeks of classes at UIC, students are offered handouts and flyers from a multitude of organizations as they walk between classes. In the fall of 2005 as well as 2006, one of these handouts was a small slip of paper offering a free 6" sub sandwich at the nearest Subway restaurant during set hours each day that week. Just show up with the slip of paper. Upon arriving at the Subway restaurant and presenting the paper to the cashier, the student is informed that he or she needs to speak with the small group of people in the corner of the restaurant with a form to fill out, or in some cases a laptop computer. When the student asks these people for his or her free sub coupon, the student is told that all he or she needs to do is fill out this form for a Discover card and they can get their free sub sandwich.

As an older freshman student who had already served four years in the United States Army, when I first encountered this practice I simply thought of it as a rather smart, albeit tricky marketing technique. It was not until I spoke with the credit card representatives that I began to become upset. I asked about what I could do if did not want a credit card. I was told that I was not necessarily going to receive a credit card, only that I was giving them my information to apply. I expressed a concern for keeping a clean credit report, and I was told that this would not show up on my credit report, that would occur only if I accepted the card and used it. When I asked if it was possible to receive my free sub sandwich without filling out the application, I was given a negative response. However, all I needed to do was fill out the form and if I did get the card I could simply not use it and nothing would change with regards to my credit or anything else. I quickly recognized these answers as half-truths at best, fallacies at worst.

At the time, I simply moved on and didn't consider it any further. I was a freshman student and not particularly concerned with taking up a fight against a credit card company. The following fall, the exact same deal was offered by Discover Card and again I declined. I still wasn't that upset, as this time I didn't even bother to go to the Subway restaurant because I knew what the catch would be. Some months later my roommate received a Discover card in the mail. She had signed up for the card early in the school year, at the Subway restaurant.

Since then, I have become involved in student politics, to include raising awareness of student debt and the need for more funding for higher education. In the fall of 2008, I did not notice a credit card vendor at the Subway restaurant, and thought that perhaps Discover Card had changed their policy, or at least their marketing practices. Much to my disappointment however, just earlier this year I was handed a slip of paper by a fellow student advertising free sandwiches in the nearby Jimmy John's restaurant, which is located quite literally across the street from the previously mentioned Subway restaurant. Sure enough, as I entered, I encountered not one, but four laptops setup waiting to process applications, and a representative offered me a free sandwich for applying for a Chase credit card. I do not recall if it was a Visa or MasterCard. Again, I asked the same credit focused questions and again I received the same unsatisfactory answers.

Ladies and gentlemen, I will be the last person to suggest that college students are somehow incapable of making their own informed decisions regarding credit cards. I do not appear before you today suggesting any measure that would prevent a student from receiving a credit card. Students can frequently benefit from having credit available for things such as purchasing airfare or financing themselves during times of personal emergencies. I only tell you our story to highlight for you the specific actions that have been taken to target college students on campus despite my University's best efforts.

These cards are not tailored in any way to be financially beneficial for students as a target demographic. The majority of cards offer a low introductory interest rate, followed by a typical 15% to 20% APR. I would draw your attention to

the contrast in credit card acceptance between a steadily employed 22 year old making $25,000 yearly and a college student with no form of income or anticipated income for possibly 3 years to come. One must ask where the credit card companies, as businesses, are expecting to profit by extending credit to the college student on a nearly constant basis. The only possible answer is the high interest rates, and the amount of time many students must carry a balance until they can get at least a summer job, or in the worst case until they get a job after graduating. The logical question to ask next is, can our students afford this? How many students have dropped out of college due to overwhelming debt, specifically credit card debt? On a national level, how many higher education degrees have been lost because of poor financing options? How does a nation that seeks to lead the world in technology and innovation continue to absorb educational casualties caused by the deadly mix poorly funded higher education and oppressively expensive private credit options for its students?

I am no economics or higher education expert. I have not even received my bachelor's degree yet. However, that does not mean I do not hear the voices of my fellow students; and with growing frequency, they tell stories of taking a year off to pay down bills and credit card debt, leaving school indefinitely until they can get back on track financially, or joining the armed forces because it is one of the few ways to recover from the financial black hole the student now finds him or herself in. These are not just lost opportunities for these students. Each of these tales is a lost opportunity for our communities and our nation: one less doctor, one less engineer, one less future Senator, Representative or possibly President.

Again, thank you for your time and the opportunity to speak with you. I hope that our story has given you some of the insight you require to address the problem and better equip our youth to face the challenges of tomorrow.

Testimony of Campus Progress Action

Erica L. Williams
Policy and Advocacy Manager

Hearing on
Problem Credit Card Practices Affecting Students

Before the Subcommittee
On Financial Institutions and Consumer Credit
Of the Financial Services Committee,
U.S. House of Representatives
Honorable Carolyn Maloney, Chair

June 26, 2008

Testimony of Campus Progress Action Before U.S. House Subcommittee on Financial Institutions and Consumer Credit On Problems Credit Card Practices Affecting Students, June 26, 2008

Chairwoman Maloney, Ranking Member Biggert, and members of the committee:

I am Erica L. Williams, Policy and Advocacy Manager of Campus Progress Action. Campus Progress Action is part of the Center for American Progress Action Fund. Along with our sister organization, Campus Progress, which is part of the Center for American Progress, we work to help young people make their voices heard on issues that matter. Through grassroots issue campaigns, public events, an online magazine, a blog, and student publications, we act to empower new progressive leaders nationwide as they develop fresh ideas, communicate in new ways, and build a strong progressive movement.

First, let me thank you for the opportunity to testify on behalf of the young people on over 500 campuses and communities with whom we work.

The issue of credit card debt is one that impacts many Americans, and much already has been presented to the committee about the important role that Congress should and must play in mandating fair credit card practices.

My testimony this afternoon will not only reinforce that point, but will also seek to convince you of two things: First, that young people, especially students, are uniquely impacted by credit card debt and the abusive practices of credit card companies. Second, that this negative impact can only be made better through an approach with legislative action at its center.

Two years ago, Campus Progress began engaging students around the country in a discussion about debt in higher education through our "Debt Hits Hard" campaign. The campaign focused primarily on rising college costs and student loans.

But as we began that work, something else became increasingly evident. We realized that credit card debt and the process through which it is incurred is an equally important part of understanding the financial lives and burdens of young people.

If there is one common experience that college students share, it is the experience of living in debt. Compared to previous generations, today's young adults have not only been forced to borrow for their education but also for their expenses while in college.

According to Nellie Mae, the average undergraduate has $2,200 in credit card debt. That figure jumps to $5,800 for graduate students. Since so many student credit cards have high annual percentage rates, often at higher rates than the rest of the population given their thinner credit files, the longer these students wait to pay the cards off, the more money they'll pay in the form of interest.[1]

[1] Nellie Mae, "Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends," 2005, available at http://www.nelliemae.com/pdf/ccstudy_2005.pdf.

Testimony of Campus Progress Action Before U.S. House Subcommittee on Financial Institutions and Consumer Credit On Problems Credit Card Practices Affecting Students, June 26, 2008

As organizations like Center for American Progress, U.S. PIRG, and Demos began producing the evidence of this growing and unique student problem through reports, statistics, and solid research, Campus Progress Action continued to do what we do best: talk withstudents and give them the tools to make their voices heard about the issues that affect them the most. And they spoke out about predatory credit card practices and the overwhelming weight of that debt loudly and clearly.

Through a series of public forums around the country, from Broward Community College in Fort Lauderdale, Florida to Purdue University in Indiana, we brought together students and experts to discuss the growing problem of credit card debt on college campuses. At each event we heard the same: Banks and lenders are profiting off of young people's financial inexperience, partnerships and relationships with universities, and strategic and deliberate targeting.

As a young professional myself, not yet 5 years out of college, I can trace my relationship with credit card debt back to my freshman year. I had been warned by my mother about credit cards and tried to stayed away from them at all cost. Mail solicitations jammed my tiny dorm mailbox and fliers on bulletin boards greeted me every day as I walked out of the building. Because of my lack of faith in the integrity of the credit card industry and a feeling of vulnerability, I had a fear of credit cards that fortunately kept me away from accumulating an exorbitant amount of debt. But there were indeed nights when, after my meal plan was overextended, the burden of student debt was so great and the money from my work-study job so low, that I desperately wanted and needed to use a credit card for meals and social activities.

For every story like mine, there are thousands of stories like that of Kali Dun, a student from the University of Virginia. Now a young professional with over $7,000 in credit card debt, she shared with Campus Progress her experience with credit cards in college. When asked about the presence of companies on campus she said, "They were everywhere...like vultures. Outside of my dorm, at football games, and in the quad. I took their teddy bears, free pizza, tote bags, and complicated, convoluted sign up forms." By her junior year, Kali had opened three credit cards, all on campus, and had incurred nearly $3,000 in debt. Along with the giveaways and incentives, she took also too high fees, heavy interest rate burdens, and complex terms, three credit card practices that have been proven to heighten the risk of default. And default she did. As a senior, Kali graduated with over $5,000 in credit card debt.

Kali's story is but one of many that we continue to hear from students. It illustrates the key challenges that college students face with regard to credit cards:

1. Aggressive marketing and targeting by credit card companies.

With regard to marketing, companies use a variety of aggressive techniques, from buying lists from schools and entering into exclusive marketing arrangements with schools to marketing directly to students through the mail, over the phone, on bulletin boards and through aggressive on-campus and near-campus tabling—facilitated by so-called "free gifts."[2]

[2] Tamara Draut and Javier Silva, "Generation Broke: The Growth of Debt Among Young Americans," Demos, 2004, p. 7.

Testimony of Campus Progress Action Before U.S. House Subcommittee on Financial Institutions and Consumer Credit On Problems Credit Card Practices Affecting Students, June 26, 2008

2. High fees, heavy interest rates, and complex terms.

The credit card debt that students incur from these credit experiences tends to carry substantially higher costs than other forms of credit due to myriad fees in addition to high interest rates. The result is that many students unwittingly slide deeper and deeper into debt as they fall prey to the lack of transparency in credit cards.

But credit card companies are notorious for aggressive marketing and fine print. Why is this situation particularly damaging for students?

Here is a snapshot of college-age young people at 18-24 years of age:

- According to a 2004 study by Nellie Mae, 76 percent of undergrads have credit cards, and the average undergraduate has $2,200 in credit card debt. Additionally, they will amass, on average, almost $20,000 in student debt.[3]
- Another study found that 18- to 24-year-olds in 1989 devoted 13 percent of their income to debt payments. Today's 18- to 24-year-olds devote 22 percent of their income to servicing their debt.
- One-fourth of the students surveyed in US PIRG's 2008 Campus Credit Card Trap report said that they have paid a late fee, and 15 percent have paid an "over the limit" fee. Credit card companies will often impose a "penalty rate" of 30 percent or more after just one or two late payments, and this interest rate will often last for six months or more. Sometimes, customers are charged a penalty rate because they were late on a different loan (this is called "risk-based re-pricing" or "universal default"), and some banks manipulate the due dates from one month to another to rack up late fees.[4]

Major borrowing from credit card companies is like visiting a Las Vegas casino—it's a gamble and the odds are against you. But as college students, the analogy goes a step further. Imagine that you entered the casino every time you walked out of class, or out of the cafeteria. Or if fliers for the casino were taped on the walls of every bathroom, and blackjack dealers were calling your dorm room with promises of free casino chips—all during the most important time in your financial life. The casino wants college students, and needing the money, they don't realize that this gamble is one that has implications for the next 5, 10, or 20 years.

To be clear, this accumulated credit card debt is not always the result of irresponsible spending and late night pizza runs—it is also the result of academic fees and textbooks. U.S. PIRG's research[5] has shown that some students use their credit cards to pay for their core tuition. Credit cards are increasingly being used for academic fees and textbooks. In exchange for using this form of payment for academic needs, students are rewarded with high interest rates, high debt-to-credit ratios, low credit scores, and blemishes in the infancy of their credit history that will haunt them for years. Young people who become delinquent on credit cards due to the lack of transparency can damage their credit score and run the risk of paying a higher rate on their car loans, home loans, and other loans in the future.

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[3] Nellie Mae, "Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends.".
[4] U.S. PIRG, "Campus Credit Card Trap," available at http://www.truthaboutcredit.org/campus-credit-card-trap.
[5] Ibid.

Not only are college students and other young people in perhaps the most vital and vulnerable point of their financial lives, their future economic health often depends on decisions made during this period. Students saddled with credit card debt upon graduation can pay up to 25 cents of every dollar they earn servicing their debt: their credit cards, student loans, and other loans.[6] To add to this, today's young adults are joining the job market during a time when incomes have been stagnant and when costs for health care and retirement benefits are increasingly being shifted from employers to employees. Recent graduates also find that the job market is changing rapidly, so much so that the career paths that their education prepared them for may soon disappear. This generation—which is the future middle class of workers—can ill afford to be financially compromised. These and other factors paint the following harrowing picture of life after college:

- A 2006 poll of 3 million twentysomethings from *USA Today* and Experian, the credit-reporting agency, found that nearly half of twentysomethings have stopped paying a debt, forcing lenders to "charge off" the debt and sell it to a collection agency, or had cars repossessed or sought bankruptcy protection.[7]
- A poll of twentysomethings by *USA TODAY* and the National Endowment for Financial Education found that 60 percent feel they're facing tougher financial pressures than young people did in previous generations. And 30 percent say they worry frequently about their debt.[8]
- The Boomerang Effect, young adults returning to live with their parents, is quickly growing. The 2000 Census found that more than 25 percent of 18- to 34-year-olds had moved back in with family at the time the Census was taken. In 2006, Experience Inc., which provides career services to link college grads with jobs, found that 58 percent of the twentysomethings it surveyed had moved back home after college. Of those, 32 percent stayed for more than a year, according to its survey of 320.[9]
- Debt has forced some young people to change their career plans. Of those surveyed in the 2006 *USA Today*/NEFE poll, 22 percent say they've taken a job they otherwise wouldn't have because they needed more money to pay off student-loan debt. Twenty-nine percent say they've put off or chosen not to pursue more education because they have so much debt already. And 26 percent have put off buying a home for the same reason.[10]
- Average credit card debt among indebted young adults increased by 55 percent between 1992 and 2001, to $4,088.[11]
- The average credit card indebted young adult household now spends nearly 24 percent of its income on debt payments, four percentage points more, on average, than young adults did in 1992.[12]

[6] Tamara Draut, *Strapped: Why America's 20- and 30-Somethings Can't Get Ahead* (New York: Doubleday, 2006).
[7] Mindy Fetterman and Barbara Hansen, "Young people struggle to deal with kiss of debt," Mindy, *USA TODAY*, November 19, 2006, available at http://www.usatoday.com/money/perfi/credit/2006-11-19-young-and-in-debt-cover_x.htm
[8] Ibid.
[9] Ibid.
[10] Ibid.
[11] Draut and Silva, "Generation Broke: The Growth of Debt Among Young Americans."
[12] Ibid.

- Among young adult households with incomes below $50,000 (two-thirds of young households), nearly one in five with credit card debt is in debt hardship—spending over 40 percent of their income servicing debt, including mortgages and student loans.[13]
- Young Americans now have the second highest rate of bankruptcy, just after those aged 35 to 44. The rate among 25 to 34-year-olds increased between 1991 and 2001, indicating that this generation is more likely to file bankruptcy as young adults than were young Boomers at the same age.[14]

As a result of over-the-top credit card marketing on campuses, terrible credit card terms and conditions, and an economy that no longer provides as many well-paying jobs with good benefits as it once did, young adults, post-college, are facing overwhelming odds to achieve financial health, in large part as a result of the credit card debt from their undergraduate years. We are, as Anya Kamenetz's book of the same name labeled us, Generation Debt. Significant, unmanageable credit debt and a cycle of post-graduation payments, default, and potential bankruptcy, impacts our families (due to limited options for living arrangements and delayed marriage rages) and our communities (due to job decisions made strictly with debt payments in mind).

So we now know the scope of the problem. College students are in trouble, and credit card companies are partly to blame. But what about the solution?

First, students will continue their campaigns on the state and campus level to not allow credit card marketing on campus, to keep colleges and universities from sharing students and alumni lists to credit card marketers, and to improve financial literacy among young adults.

But Congress also has its role to play. We submit two policy ideas. First, we urge Congress to take the extra step and, with young people in mind, **mandate a higher level of fairness in credit card terms and conditions by banning several of the most abusive credit card practices.** Currently, young people who want to use credit cards responsibly have a difficult time determining their terms and conditions, and have difficulty cost-shopping among different credit cards. And further, those who endeavor to read their voluminous cardholder agreements often find a clause to the effect of: "We reserve the right to change the terms at any time for any reason." Congress should mandate that card issuers give cardholders at least 45 days notice of any interest rate increases and the right to cancel their card and pay off the existing balance before the increase takes place.

Second, the Federal Reserve's proposed changes to Regulation Z would go a long way to improve the effectiveness of the marketing disclosures, account opening statements, and billing statements that young adults receive. This would ensure that information is provided in a timely manner and in a form that is readily understandable. Congress could go a step further by enacting more creative ways of disclosing the most important information. This can be done by requiring disclosure of the length of time it will take to pay off an account if only the minimum payment is

[13] Draut and Silva, "Generation Broke: The Growth of Debt Among Young Americans."
[14] Ibid.

made. In this way, students could better gauge the long-term costs of putting debt on their credit cards.

Legislative action to protect against abuses by credit card companies is a fundamental issue of fairness and protection of America's future – young Americans – when they are arguably in the most vulnerable and important phase of their financial lives.

TESTIMONY BY THE HONORABLE LOUISE M. SLAUGHTER
HEARING ON STUDENTS AND CREDIT CARDS
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
JUNE 26, 2008

Madame Chairwoman, I want to thank you for having this important hearing today and for inviting me to testify. I hope that our discussion will help lead to the timely passage of H.R. 3347, the Student Credit Card Protection Act.

Credit card debt in our society is growing at an ever-increasing rate, and people are starting to get into a cycle of debt at even younger ages than ever before. College students are now acquiring credit cards they do not know how to use, and wracking up debt it will take them years to pay down.

Credit card companies appear on campus pedaling what seems to many students to be free money—along with the promise of free t-shirts, gift certificates, and other incentives. But this money is anything but free—often carrying interest rates of up to 30 percent annually, meaning it could take a well-meaning student years to pay down an initial debt of several hundred dollars, if they make only the minimum payment.

Recent studies have indicated that financial pressure is now the number one reason students drop out of college—more than academic issues, health problems, or any other challenge.

You and I both know the value of a college degree, and the tragedy that occurs when a student who wanted to study anthropology or medicine, philosophy or physics, is forced to drop out of college simply to pay down debt they never should have had the ability to incur.

The reality on college campuses today is that most students have at least one credit card, and among those who do, over 40 percent carry a balance from one month to the next. The average balance they carry is $1000, far higher than a student with no income would be able to pay off, particularly at a high interest rate. Most disturbingly, of students who carry a balance on their cards, 25 percent carry a balance of more than $2,500.

We must take action to show students how to use credit responsibly, while still allowing for students' need to have a card for convenience or emergency expenses.

The Student Credit Card Protection Act will address these concerns by limiting the amount of credit a student without a co-signer may have to either $500 or 20 percent of their annual income, whichever is greater.

It will also mandate income history verification for any student who would like a credit card, to ensure that the amount of credit extended is reasonable for their income. For students who have

a co-signer on their cards, any increase in their credit limit must be approved, in writing, by their co-signer.

These limitations will enable our young people who are learning to be tomorrow's leaders to learn how to take care of their own finances as they grow older. Financial discipline is the key to buying a house or car, and to maintaining a family budget. I am confident that the Student Credit Card Protection Act will enable the next generation to learn how to be successful by learning how to use credit without misusing it, and making sure that our younger citizens do not find themselves mired in debt, without any idea of which way to go.

COMMITTEE ON
Education and Labor
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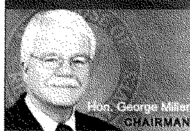

Press Releases

Chairman Miller Statement on FTC's New Consumer Guide on Student Lenders' Deceptive Marketing Practices

FTC Launches Consumer Education Effort as Part of Investigation Requested By Miller

Wednesday, June 25, 2008

WASHINGTON, DC -- In the wake of its ongoing investigation into deceptive student lender marketing practices, the Federal Trade Commission today released a new consumer guide created with the U.S. Department of Education to help students and parents detect questionable lender marketing materials and practices. The FTC began its investigation **at the request of U.S. Rep. George Miller (D-CA)**, the chairman of the House Education and Labor Committee, after the committee came across examples of unfair and deceptive marketing letters last year. Miller issued the following statement on the FTC's new guide and ongoing investigation.

"For too long, students have had virtually no protections from the confusing, misleading, and even predatory marketing materials used by many private lenders. With students still lining up their financial aid options for the fall, this new guide should serve as a resource to help students steer clear of manipulative or shady loan offers. I commend the FTC for responding to my request and launching this effort. I look forward to learning more about what the FTC uncovers as it continues this important investigation.

"In Congress, we are working to finalize legislation that would provide vital consumer protections to students when navigating the often murky world of college loans. As college costs continue to soar, we must do everything we can to help students find the best possible deals on their loans and ensure that our nation's student loan programs are working in the best interests of consumers – not companies."

Miller is the author of legislation, the College Opportunity and Affordability Act, that would put a stop to deceptive lender marketing practices and provide students with much-needed consumer protections when borrowing and repaying federal and private student loans. That bill was passed by the House in February; the House and Senate are now in the process of conferencing the legislation. For more information on the legislation, **click here**.

To see the Federal Trade Commission's consumer guide on student lenders' deceptive marketing practices, **click here**.

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June 2008

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Student Loans: Avoiding Deceptive Offers

A joint publication of the Federal Trade Commission and the U.S. Department of Education

An education beyond high school is an investment in your future. It can be expensive and often requires you or your family to take out loans to help pay for it.

Student loans fall into two categories, federal loans and private loans.

- Federal loans, which are subject to oversight and regulation by the federal government, include:
  - — Direct Loans, where the U.S. Department of Education is the lender;
  - — Federal Family Education Loans (FFEL), where private lenders make loans backed by the federal government; and
  - — Federal Perkins Loans.
- Private loans, sometimes referenced as "alternative loans," are offered by private lenders and do not include the benefits and protections available with federal loans.

Whether you're taking out a new student loan or consolidating existing education loans, the Federal Trade Commission (FTC), the nation's consumer protection agency, and the U.S. Department of Education (ED), the agency that oversees federal student loans, want you to know how to spot potentially deceptive claims or business practices some private companies may use to get your loan business.

Private Loans

Private companies may offer you loans and other forms of financial assistance for your education. They often use direct mail marketing, telemarketing, television, radio, and online advertising to promote their products.

Paying for your education is a serious long-term financial obligation; that's why comparing the costs of different ways of financing your education is so important. Private loans tend to have higher fees and interest rates than federal government loans. Private loans also do not offer the opportunities for cancellation or loan forgiveness that are available on many federal loan programs. So it makes good financial sense to exhaust your federal loan options (as well as grants and scholarships) before considering loans from any private companies. To learn more about federal government loans, visit www.FederalStudentAid.ed.gov.

How to Spot Deceptive Private Student Loan Practices

If you are considering a private student loan, it's important to know whom you're doing business with and the terms of the loan. The FTC and ED offer these tips to help you recognize questionable claims and practices related to private student loans.

- Some private lenders and their marketers use names, seals, logos, or other representations similar to those of government agencies to create the false or misleading impression that they are part of or affiliated with the federal government and its student loan programs.
- ED does not send advertisements or mailers, or otherwise solicit consumers to borrow money. If you receive a student loan solicitation, it is not from ED.
- Don't let promotions or incentives like gift cards, credit cards, and sweepstakes prizes divert you from assessing whether the key terms of the loan are reasonable.
- Don't give out personal information on the phone, through the mail, or over the Internet unless you know with whom you are dealing. Private student lenders typically ask for your student account number — often your Social Security number (SSN) or Personal Identification Number (PIN) — saying they need it to help determine your eligibility. However, because scam artists who purport to be private student lenders can misuse this information, it is critical to provide it or other personal information only if you have confidence in the private student lender with whom you are dealing.
- Check out the track record of particular private student lenders with your state Attorney General (www.naag.org), your local consumer protection agency (www.consumeraction.gov), and the Better Business Bureau (www.bbb.org).

Special Considerations for Consolidation of Federal Loans

Student loan consolidation is combining several loans into one with a new repayment term and interest rate. This is generally offered in connection with federal loans. Here's how to help identify potential problems related to loan consolidation:

- Avoid lenders and marketers who use high-pressure sales tactics. Some marketers pitch that "your interest rates may go up if you do not consolidate immediately!" Whether and when interest rates for consolidating your loans will change depends on what type of loans you have. Look at your loan documents to determine whether the interest rates are fixed or variable:
  - — If all of your education loans have fixed interest rates, there may be no deadline to consolidate.
  - — If some or all of your loans have variable interest rates, when you consolidate into a fixed loan it may affect the interest rate of your loan. ED publishes new variable rates for some federal loans each July 1st. The annual rate changes can raise or lower the interest rate offered on a consolidated loan because the consolidation interest rate will be the weighted average of all loans consolidated.

Whether or not you have a targeted timeframe, take your time to determine whether consolidating is right for you.

- Some lenders impose restrictions on promised discounts. Some may disclose these limits only in the fine print. Read the fine print in your loan documents to find these types of conditions:

— Some lenders lower the interest rate on your consolidated loan, but only if you opt for automated payments from your checking account.

— Other lenders discount the interest rate on your consolidated loan, but only if your loan has at least a specified minimum loan balance.

— Still others agree to lower the interest rate on your consolidated loan, but only if you remain current on your payments for the life of the loan. You may want to consider loans with more immediate discounts, a shorter on-time payment period for interest rate discounts, or an additional discount for signing up for automatic payments.

- Some lenders sell consolidated loans to other companies. Because benefits of consolidated loans — like promised discounts — may not transfer, you may lose benefits if the lender sells your loan. Ask the lender whether the terms of your loan will change if it is sold.
- Be cautious about consolidating federal loans and private loans into one private loan. The result of consolidating all loans into one non-federal private loan means that you lose all the benefits and protections provided in the federal loan programs.
- Consolidating a Perkins loan may not be in your best interest. You may lose unique deferment and cancellation rights available to Perkins loan borrowers. For more information about these rights go to http://www.ed.gov/offices/OSFAP/DCS/perkins.deferment.cancellation.html.
- Frequent consolidation after borrowing may impact timelines you need to meet to qualify for these benefits.

For More Information or to File a Complaint

To learn about federal student loans, write the U.S. Department of Education at:

U.S. Department of Education
Federal Student Aid Information Center
P.O. Box 84
Washington, DC 20044-0084
800-4-FED-AID (TTY: 800-730-8913)
www.FederalStudentAid.ed.gov

Notify the Federal Student Aid Ombudsman at 1-877-557-2575 or www.ombudsman.ed.gov if you have a complaint that you cannot resolve with your lender.

For questions about a particular lender, contact the federal agency with jurisdiction over that lender:

Office of the Comptroller of the Currency
Regulates banks with "national" in the name or "N.A." after the name:
Office of the Ombudsman
Customer Assistance Group
1301 McKinney Street, Suite 3450
Houston, TX 77010
800-613-6743 toll-free
www.occ.treas.gov

Board of Governors of the Federal Reserve System
Regulates state-chartered banks that are members of the Federal Reserve System, bank holding companies, and branches of foreign banks:
Federal Reserve Consumer Help
PO Box 1200
Minneapolis, MN 55480
888-851-1920 (TTY: 877-766-8533) toll-free
ConsumerHelp@FederalReserve.gov

Federal Deposit Insurance Corporation
Regulates state-chartered banks that are not members of the Federal Reserve System:
Division of Supervision & Consumer Protection
550 17th Street, NW
Washington, DC 20429
877-ASK-FDIC (275-3342) toll-free
www.fdic.gov

National Credit Union Administration
Regulates federally chartered credit unions:
Office of Public and Congressional Affairs
1775 Duke Street
Alexandria, VA 22314-3428
703-518-6330
www.ncua.gov

Office of Thrift Supervision
Regulates federal savings and loan associations and federal savings banks:
Consumer Programs
1700 G Street, NW
Washington, DC 20552
800-842-6929 toll-free
www.ots.treas.gov

Federal Trade Commission
Regulates non-bank lenders:
Consumer Response Center
600 Pennsylvania Avenue, NW
Washington, DC 20580
877-FTC-HELP (382-4357) toll-free
www.ftc.gov

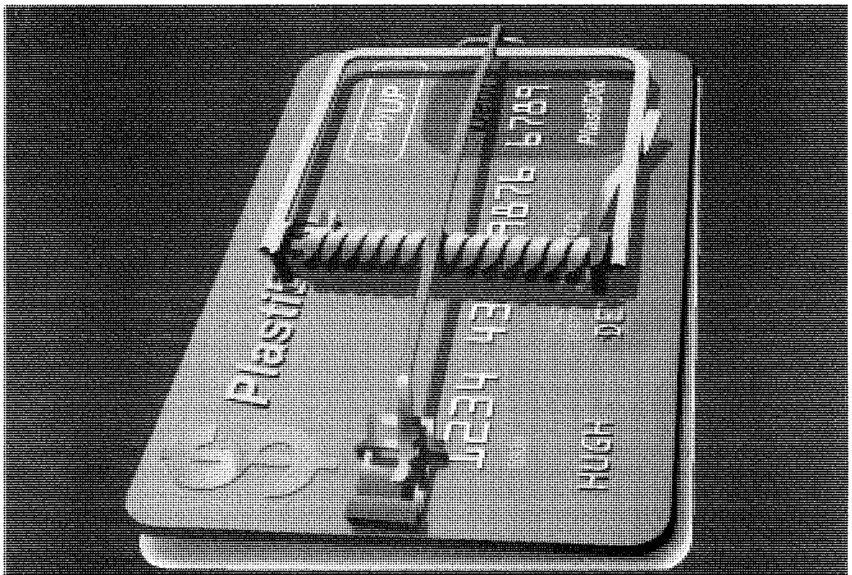
The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

Federal Student Aid, an office of the U.S. Department of Education, administers the federal student financial aid — grants, loans, and work-study programs — available for education beyond high school. Federal Student Aid interacts with postsecondary schools, financial institutions and other participants in the student aid programs to deliver services that help students and families plan and pay for college.

To learn more about Federal Student Aid and how to pay for college, visit www.FederalStudentAid.ed.gov or call call 1-800-4-FED-AID.

The Federal Student Aid Ombudsman is available to individuals with specific complaints. To learn more about the Ombudsman, visit www.ombudsman.ed.gov or call 1-877-557-2575.

Federal Trade Commission
Bureau of Consumer Protection
Division of Consumer and Business Education



The Campus Credit Card Trap

A Survey of College Students and Credit Card Marketing

U.S. PIRG
Education Fund

Truthaboutcredit.org

March 2008

The Campus Credit Card Trap:

A Survey of College Students and Credit Card Marketing

The U.S. Public Interest Research Group Education Fund
March 2008

By Edmund Mierzwinski, Consumer Program Director, with Christine Lindstrom, Higher Education Project Director and the staff and students of the Student PIRGs

U.S. PIRG Education Fund gratefully acknowledges the support of the Ford Foundation (fordfound.org) for our campus credit card project. For more details, see the project website at truthaboutcredit.org. However, the findings and views expressed in this report and on the website are solely those of the authors, U.S. PIRG Education Fund and the Student PIRGs.

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The Student PIRGs: The Student PIRGs—located on nearly 100 campuses—give students the opportunity to get informed and get active on the issues that affect their lives while training the next generation of leaders. The Student PIRGs are independent state-based student organizations that work to solve public interest problems related to the environment, consumer protection, and government reform. Read more about the Student PIRGs at www.studentpirgs.org.

For a copy of this report, visit our website or send a check for $30 made payable to U.S. PIRG Education Fund at the following address:

U.S. PIRG Education Fund
218 D St, SE
Washington, DC 20003
202-546-9707
www.uspirg.org or www.truthaboutcredit.org

The Campus Credit Card Trap

Table of Contents

Attachments:

1. Executive Summary

Credit card lending is enormously profitable. According to annual Federal Reserve Board of Governors' (FRB) Reports to Congress, it is the most profitable form of banking. But the credit card industry is saturated. The average adult had nearly five credit cards in 2006 and the average household received 5.7 credit card solicitations monthly in 2004, according to the 2007 FRB report.[1]

Banks seeking even greater profits from credit cards have several options:

- First, as has been widely reported and is the subject of Congressional inquiries, banks can squeeze their existing customers for greater profits in several ways: including (1) using a variety of rewards and tricks such as encouraging extremely low minimum payments to maintain highly-profitable high revolving card balances; (2) raising interest rates on those balances through a variety of traps including imposition of penalty interest rates for late payments and changing due dates to encourage more of those late payments; (3) using misleading teaser rates and, (4) raising the rates of otherwise good customers by claiming that their credit score had declined or that they were late to another lender (called "universal default");[2]
- Second, banks can market to customers of other credit card companies, urging them to switch by offering low teaser rates on balance transfers and other incentives. But this marketing is expensive both because of the cost of the zero-interest offers and the cost of sending out the billions of solicitations;
- Finally, banks can seek out customers who have never had a card. College students are among the most prominent targets for this marketing.[3] They are young and understand that they need credit to get ahead in the world. Some need credit because of the rising cost of a college education. Finally, most of them are clumped together on campuses that they either commute to or live at. This makes them easy to target. Companies use a variety of techniques, from buying lists from schools and entering into exclusive marketing arrangements with schools to marketing directly to students through the mail, over the phone, on bulletin boards and through aggressive on-campus and "near-campus" tabling-- facilitated by "free gifts."

This study is an in-person survey of a diverse sample of over 1500 students, primarily single undergraduates, at 40 large and small schools and universities in 14 states around the country conducted between October 2007 and February 2008. It analyzes how students pay for their education, how many use and how they use their credit cards and, finally, their attitudes toward credit card marketing on campus and whether or not they support principles to rein in credit card marketing on campus.

The findings confirm that students are using credit cards in significant numbers and that a significant number are paying the price through late fees, high balances and delinquencies. The findings also show that banks are marketing aggressively to students through a variety of channels. Finally, the findings demonstrate that an overwhelmingly majority of students support limits on credit card marketing on campus to rein in unfair bank practices.

2. Major Findings:

A. Attitudes of Students Toward Campus Credit Card Marketing and Establishing Reform Principles:

Increasingly, the relationships between credit card companies and colleges and universities are coming under scrutiny. Credit card issuers work aggressively to get on to campus to hawk their credit cards using as many methods as possible. Some credit card companies rely on vendors to market on campus, and many others enter into exclusive arrangements to market university-branded cards in return for lucrative fee-sharing relationships. These arrangements come at the expense of student privacy and pocketbooks.

We asked students their views on whether colleges and universities should regulate the practices of credit card companies on campus. The results show that students overwhelmingly support stricter regulation of campus credit card marketing.

As Table 1 shows, four out of five (80%) students supported adoption of strong campus credit card marketing principles. Only 1 in 5 students replied yes to the proposition that students could handle credit card marketing without regulation. Some of these also supported some of the reform principles anyway.

Of those who supported one or more strong principles, nearly three-in-four students (74%) asserted that only cards with fair terms and conditions should be marketed on campus. Since state attorneys general, consumer groups, state and federal legislators are receiving increasing numbers of complaints about cards with unfair terms or "tricks and traps" that result in massive penalty fees and the imposition of punitive interest rates at APRs as high as 36% or more, this is not a surprising result.

Table 1:
Support For Campus Marketing Principles
80% of respondents supported at least one reform principle
74% supported two or more

% Supporting Marketing of Fair Cards Only	74%
% Supporting No Sale/Sharing of Student Information With Card Cos.	67%
% Supporting Limits On Days Tabling Allowed Each Semester	46%
% Supporting Ban On Card Co Fees To School or School Groups	38%
% Supporting Ban on Free Gifts	36%
The remainder of respondents (20%) opposed limits because students could make the choice.	

Students also overwhelmingly (67%) opposed the sale or sharing of student lists (which can include home and dorm addresses, email addresses and land line and cell phone numbers) with credit card companies. In a detailed section below, we include an analysis of the sharing or selling of lists on the University of Iowa and Iowa State University campuses. **Appendix 3** to this report is a copy of a 2-page letter used at the University of Iowa to market cards to undergraduates.

In addition:

Nearly half of students (46%) supported limits on the number of days companies could market on campus.

Nearly four in ten (38%) students opposed companies offered fees to either student groups or the university for marketing. In some cases, companies pay vendor fees directly to the college. In others, student groups can "rent" out their campus table privileges.

Thirty-six percent (36%) opposed free gifts. Many students did indicate that they sign up for the credit cards simply to obtain the free gifts and then cancel. Some

indicated difficulty in canceling. Others indicated that their intention was to cancel, but they ended up using the card and got into debt.

Nearly three out of four (74%) of students supported more than one of these campus marketing reform principles.

B. Free Gifts Used In Campus and Off-Campus Table Marketing Efforts

Three of four students (76%) reported stopping at tables to consider offers or apply for credit cards. The best way to get students to stop at tables appears to be to offer a "free gift," of either nominal or real value. Of course, the catch is that the free gift is conditioned on completing a credit card application.

Table 2: Total Reporting Table Interactions	
76% Reported Stopping at a Table On Or Near Campus	
31% of these Reported Being Offered/Accepting A Free Gift	
Most common gifts (of those who reported a gift interaction)	
T-Shirts	**50%**
Frisbee/Sports Toy	**20%**
Desk Toy/Stress Ball	**16%**
Candy or Soda	**16%**
Mug or Water Bottle	**18%**
Hat or Cap	**16%**
Other	**40%**
The most common other was food, either pizza, Subway subs, other sandwiches or "lunch"	
Others reported receiving discount coupons or "percent off purchases." A few reported "blankets" or "air miles" and one reported an Ipod Shuffle.	

Some states and individual campuses have restricted or regulated on-campus marketing by credit card marketers.[4] According to Business Week:[5]

> "California, Oklahoma, and Texas recently passed laws restricting credit-card marketing on public campuses, joining 15 other states that already had such restrictions in place. In California, credit-card marketers can't lure students with free gifts; in Oklahoma, colleges can no longer sell student information for credit-card marketing purposes; and in Texas, on-campus credit-card marketing was curtailed, permitting marketing only on limited days and in certain locations."

For example, with passage into law of AB 262 (Coto) in 2007, California has strengthened its campus marketing provisions. The act requires that public colleges and universities disclose exclusive marketing arrangements with credit card companies and banks. It also broadens the scope of existing 2001 legislation (AB 521 (Koretz)) which merely encouraged public universities to adopt policies restricting banks or their representatives from linking free gifts to the completion of a card application at any public college or university.

In her recent paper, "Maxed Out College Students: A Call to Limit Credit Card Solicitations on College Campuses,"[6] law professor Creola Johnson compares and critiques flaws in existing state legislative and campus efforts to restrict credit card marketing on campus and states:

> Banning gifts is essential to any state legislation seeking to regulate on-campus solicitations because the majority of students will not apply for a credit card unless a gift is offered. As a result, the ban will prevent students from being enticed to prematurely take on debt. Finally, many lawmakers have recognized the need to require some form of financial education to protect students from overusing the credit available to them.

Table 2 lists the kinds of free gifts most commonly offered by credit card companies or their subcontractors (typically firms that specialize in college marketing). It is important that any state or college regulation

of credit card companies apply to both the on-campus vendor and to the credit card company it serves as agent for. In many news stories about unreasonable on-campus credit card marketing, the bank simply blames the vendor for violating its policies. In these cases, the banks are either not supervising the vendor adequately or are using the vendor as a cut-out that engages in practices the bank encourages, but can publicly denounce.

We also found that the firms in some cases may have simply moved to near-campus locations or ignored the rules. We found that some students at all universities surveyed, including those with state restrictions, reported interactions at tables.

As we note in the table, there are a wide variety of free gifts being offered. While some are of nominal value, the high level of responses in the "Other" category for pizza or "Subway sub" sandwiches or "free food" suggest that credit card companies and their subcontractors are taking advantage of students' chronic cash shortages to attract them to tables with offers of the instant gratification of free food, then getting them to sign up for cards that ironically may contribute to later cash problems.

At the same time as many gifts are low-cost or of nominal value, including cheap t-shirts, Frisbees and desk toys as well free lunch coupons, respondents noted a wide variety of gift values. Some firms are offering gifts of substantial value, including pre-loaded gift cards worth $10-$25, or in one case, an iPod shuffle (worth approximately $49 retail according to Internet sites).

C. Marketing To Students Via Mail and Phone Solicitations:

Every year, the credit card industry sends over 6 billion credit card offers through the mail to consumers. Students are getting their share. Fully 80% of respondents said they received mail from card companies. Students reported receiving an average of nearly five (4.8) mailed solicitations per month. However, a number of students simply reported "hundreds."

In addition, 22% of students reported receiving an average of nearly four (3.6) phone calls per month from credit card companies.

It appears as if credit card companies may be escalating their use of mail and phone channels in response to the growing restrictions on the use of on-campus tables.

D. How Students Reported Paying For School

Fully 61% of students relied on parents for some or all of their educational costs. The next most common sources of income reported were scholarships (40%), student loans (38%), summer jobs (32%) and part-time jobs (29%).

E. How Students Reported Using Their Cards

Nearly two-out-of-three (66%) students reporting having at least one credit card. Thirty percent (30%) reported that for their primary card, they were either a co-signer or their parents paid the bill.

Of remaining students paying their own bills, just over half of the remainder reporting (36% of the total) stated that they paid their own primary card bills in full each month. The other half of students paying their own bills, (34% of the total) stated that they carried a balance on their primary card.

When asked how they used their cards, a question for which multiple entries were allowed, more than half (55%) reported that they used them for "day-to-day-expenses. The same number (55%) reported using them for books. The next highest categories reported were "weekends and pizza" and "emergencies" but very few consumers limited their response to "emergencies." Nearly one-quarter (24%) reported that they had used their cards to pay for college tuition.

Table 4: Characteristics of Card Ownership and Use

How Many Students Have Credit Cards	
Reporting At Least One Card (Credit/Gas/Store)	66%
Reporting "I Have No Cards"	34%
Of Those Reporting A Card, How I Pay My Primary Credit Card	
I am only a co-signer or parents pay bill for my card	30%
I pay full amount each month, carry over no balance	36%
I carry a balance on my primary card	34%

How Students Say They Use Their Credit Cards

For Day To Day Expenses	55%
For Books	55%
For Weekends and Pizza	40%
For Emergencies	39%
For Travel to School	40%
For Vacation	25%
For Tuition	24%
Other	10%

Common "Other" responses were "gas," online purchases, "food" and "to avoid debit card overdrafts" or "when I have no cash." Respondents either used an "X" or ranked responses 1-8. Results include X, 1, 2 or 3 (highest responses).

F. How Students Reported Their Card Balances

Seniors responsible for their own cards who reported carrying credit card debt had more than double the debt reported by freshmen. Students responsible for their own cards who reported that they carried credit card debt and also had student loans had slightly higher credit card balances than those who did not have loans.

Students responsible for their own cards who reported that they had previously defaulted on a credit card had much higher credit card balances than those who had not had a previous default.

Table 5: Balances Reported: Students Who Are Responsible For Their Cards and Carry A Balance

		Reported Balances Increase With Loans Or Previous Default	
	Card Balance	Also Report Student Loans	Or, Report A Previous Default On A Card
Senior	$2,623	$2,785	$4,116
Junior	$2,459	$2,521	$3,813
Sophomore	$1,896	$2,311	$3,343
Freshman	$1,301	$1,553	$2,450

G. Negative Outcomes From Cards: Late and Over-the-Limit Fees and Defaults

One in four respondents (25%) reported they had paid at least one late fee and 15% reported they had paid at least one over-the-limit fee. Over 6% of respondents reported that at least one card had been cancelled for non-payment. Nearly one in five (19%) had cancelled a card themselves in good standing. These figures include all students, including those whose parents now pay for their primary cards or who claim to carry no balances on their primary cards.

Table 6: Negative Outcomes: Late Fees, Over-The-Limit Fees, Cancelled Cards

Of All Respondents (Card Or No Card), Paid Late or Over the Limit Fees			
Have paid a late fee			25%
Have paid an over the limit fee			15%
Have Had a Card Cancelled or Have Cancelled a Card			
	Have Card Now	No Cards Now	All (Card or No Card)
Have cancelled a card myself "in good standing"	23%	12%	19%
Have had a card cancelled for delinquency	7%	4%	6%

3. The Problem of Credit Card Companies and College Campuses

The credit card industry's priority is to get their cards into the hands of undergraduate students. Credit card companies know that the first card in a wallet has the potential to become a "top-of-the-wallet" card, or the one that is used most often. For sentimental reasons, consumers may hang onto that first card longer than other cards, which they may churn (cancel and re-apply for other cards) as offers change. Therefore, targeting of undergraduates and making exclusive deals with colleges represents a long term industry strategy to become the first-in-the-wallet, top-of-the-wallet card for as many consumers as possible. Within this context, the relationships between colleges and universities and credit card companies are coming under scrutiny.

Facing budget cuts and other funding shortages, some public colleges may appreciate the revenue that credit card companies can provide in exchange for marketing privileges. Regardless, many colleges and a numbers of states have restricted campus credit card marketing - for example, by banning free gifts or limiting the numbers of days of tabling allowed or by outright banning on-campus marketing. In response, credit card companies simply invent new, more lucrative enticements and insidious marketing schemes in a never-ending effort to ensure that students carry their cards.

A. Ways That Credit Card Companies Get Onto Campus

Here are some of the methods by which credit card issuers get on to the campus:

1. Marketing through campus tabling events: Typically, student groups and organizations set up a table in a visible location on campus to educate the student body about their group and events. Many credit card companies and their vendors will market their cards on campus in this manner, having either paid daily vendor table fees or commissions to student groups, essentially to "rent" the student group's "tabling" rights.

Even at campuses that have taken the step to ban overly-aggressive credit card marketing, a recent PIRG report found that card companies and their hired vendors often violate rules:

> "Based on the blatant disregard of university policy that occurs at the UMCP (University of Maryland at College Park) campus and other schools, it appears that the voluntary code of conduct is not effective. The desire to tap into the college student market appears to outweigh any concern for the welfare of the students."[7]

2. Using student peer pressure: In some instances, credit card companies go directly to student groups and offer fees as a fundraiser for the group. Given the limited resources on campus for student groups, this marketing tactic is particularly appealing to groups that want to be active on campus. The student group will be reimbursed for getting their friends and neighbors in their dorms and apartment buildings to fill out applications for credit. This method is a particularly insidious marketing tool in that it relies on peer pressure to ensure that students are filling out applications for the credit card.

3. Branding "college" credit cards: Many colleges are enticed into exclusive arrangements to market university-branded cards in return for lucrative fees to the university. Often these arrangements are disguised through a relationship with an intermediary entity, typically an affiliated

alumni association. Here is an excerpt from a proposed 2006 agreement (renewing longstanding similar agreements) between the State University of Iowa and its alumni association. It describes in detail how much undergraduate student information is collected and then provided by the alumni association to Bank of America.

Excerpt from University of Iowa agreement with Alumni Association, which has a corresponding contract with Bank of America.

EXHIBIT A

Commitment of the University's services and information to the Association

1. Upon the Association's request, not more than six times during any academic year, provide in convenient electronic format an updated list of current University students with their local mailing addresses.

2. Permit the Association, or its representatives, to maintain an Affinity Program related informational/promotional table at the Iowa Memorial Union up to seven days per each semester. The right to have such a table from credit card information/marketing is exclusively granted to the Association until the expiration of the extended, renewed or replaced Affinity Program.

3. Upon the Association's request, not more than once per academic year, provide to the Association in convenient electronic format an updated list of current students with permanent/home mailing addresses.

4. Upon the Association's request, not more than twice per semester, provide to the Association in convenient electronic format an updated list of current students with local telephone numbers.

5. Upon the Association's request, not more than four times per semester, provide to the Association in convenient electronic format an updated list of current students with e-mail addresses.

We have posted this and other Iowa agreements on the PIRG truthaboutcredit.org website.

Last fall, a Des Moines (Iowa) *Register* investigative series[8] used a favorable new state court decision on public records to pierce the veil between secretive, exclusive contracts between Bank of America and both Iowa State University and the University of Iowa.

The newspaper obtained numerous documents that detailed the sharing of student telephone numbers, addresses and email accounts on a regular basis as a condition of the contracts. According to that Des Moines Register analysis[9] of public documents concerning the University of Iowa:

UNIVERSITY OF IOWA

Credit cards are marketed directly to students, with alumni officials suggesting that students use them to pay for books, supplies and "quick cash" in an emergency. There are 208 students actively using the cards, and they have an average balance of $1,028. Alumni officials won't release a copy of their contract with Bank of America, but they say they collect about $1 million in annual revenue from the credit cards. The alumni association gives the school $200,000 of that money each year. Some of the money given to the school is payment for $145,600 worth of football tickets used by Bank of America representatives and others.

Previously, card companies and public universities had argued that only their allegedly "private" alumni associations – supposedly exempt from public records laws – had relationships with banks. The Iowa relationships are presumably similar to those in other states. The documents show that the alumni association acts as a go-between or conduit and contracts with both the bank and with the school. The contracts and memoranda of understanding between the school and the alumni association allow the bank to obtain detailed access to regularly updated information on undergraduates.

Appendix 3 to this report is a marketing letter from the University of Iowa Alumni Association and Bank of America to undergraduate students (excerpt):

> Imagine the convenience of being able to purchase supplies for your classes, without worrying about carrying a lot of cash. You could pay for your books—or get quick cash in an emergency—and put it on one easy-to-use account. That's the kind of flexibility every student can appreciate . . . and it can be yours with the University of Iowa credit card.[10]

4. Purchasing student lists for marketing: Many credit card companies encounter no difficulty in securing information of current students at colleges for marketing purposes. It is also true that some state public records laws compel public universities and colleges to sell their lists of student information as public records, to anyone. State law may make student lists public records subject to full disclosure. The ease with which credit card issuers can access current student contact information may explain the survey results that demonstrate the high number of phone call and mail solicitations that students receive from the credit card industry.

Our survey did not encompass the use and marketing of debit cards on campus. However, recent news coverage exposes similar campus marketing approaches with bank debit cards.

5. Debit card exclusive deals: This month, USA Today reported[11] that colleges are not only signing lucrative agreements to market exclusive credit cards branded with the university logo to alumni and undergraduates, but also that an increasing number are outsourcing their student ID card needs to banks that are then offering dual-use ID card/debit cards. In addition to information that may be obtained from ID card use, student debit card usage patterns offer a detailed map that will allow the bank to later effectively market credit cards to the students.

- Which student re-loads his or her card from their own bank accounts?
- Which student relies on parental re-loads? How many? How often?
- Which student buys the most on-line or in local stores? What do they buy?
- Which student frequently pays $35 overdraft fees because he or she uses the card instead of cash for tiny transactions at Starbucks or other local coffee shops?

USA Today also reports that a protest occurred at Portland State University (Oregon):

> Hundreds of students protested, angry that the school was promoting a bank account they felt cost students more than other banking options. Their objections now are being echoed by a growing number of consumer groups and college students across the nation.

For a fee of $20, students at Portland can get a non-debit ID card, the story notes.

B. State Attorneys General Take Action

1. New York investigates campus credit card marketing: This month, papers reported that New York Attorney General Andrew Cuomo is conducting a nationwide investigation into "whether credit card marketers have offered payments or other incentives to colleges in exchange for exclusive access to the institutions' students." At least one school, Dartmouth, told the New York Times it had received a subpoena from Cuomo's office.[12] Previously, Attorney General Cuomo had become well-known for investigating relationships between student loan companies and colleges.[13]

2. Ohio settles case with Potbelly Sandwich Works: This month, Ohio Attorney General Marc Dann announced partial settlement of a lawsuit against Citibank, Elite Marketing and Potbelly Sandwich Works over deceptive credit card marketing on campuses throughout the state. In return for being dropped from the case, Potbelly agreed to fund several showings of the credit card documentary "Maxed Out," at schools around the state and to provide 1,600 free sandwich coupons to attract students to see the movie. Citibank and the firm Elite Marketing remain defendants.[14]

4. Congress investigates credit card company practices:

A. Students and Credit Cards:

The Congress is investigating a wide variety of credit card practices, including restrictions on the marketing of credit cards to young people based on their ability to pay. Under current practices, banks may offer cards to young consumers without verifying income or credit reports or other ability to re-pay, relying solely or largely on the consumer's status as a student to qualify them.[15] The student marketing reform bills include various provisions to impose ceilings on credit limits on cards offered to youth, to limit the number of cards a young consumer can have, to require underwriting or income verification, and in some circumstances, require a cosigner.[16]

While state policymakers may be told (not always correctly) that they are limited by preemption rulings from considering similar proposals, state policymakers should consider all additional actions that better regulate campus credit card marketing and that impose greater penalties on companies that break the rules.

B. Other Credit Card Practices Under Congressional Investigation:

Among the other practices of credit card companies affecting both students and others and under review by the Congress[17] are the following:

- Raising interest rates of consumers previously in good standing from their market rate of a typical 5-15% APR to penalty rates of 30% or more as the result of one or two late payments.
- Using contract terms that allow the bank to change the terms of a card at any time for any reason, including no reason.
- Raising rates to 30% APR or more even if a consumer is currently in good standing with the bank, by claiming that the consumer was late to a different creditor or that his or her credit score declined. This practice is known as either "universal default" or "risk-based re-pricing."
- Manipulating credit card due dates from month to month to trick consumers into paying more late fees of $29-$39 and concomitant "pile-on" penalty interest increases to 30% APR or more.
- Charging "pay to pay" fees when consumers attempt to avoid late fees by paying by phone or on the Internet.
- Authorizing transactions that allow a consumer to exceed his or her limit, then charging over-the-limit fees as high as $39 each month until the account drops back below the previous limit, even though the transaction was approved.
- Applying payments only to the customer's lowest rate balance, allowing high-interest credit to pile on more and more interest. If a customer has a balance at several rates (for example, a total balance of $3,000 might include a partial balance of $1,000 of a balance transfer at 0% APR, $1,000 from purchases at 15% APR and $1,000 at a cash advance rate of 22-25% APR). If a customer sends in only the minimum payment, his or her bank would routinely apply the customer's entire payment to the 0% portion of their balance only. Yet, if the customer sends in $1,000 (e.g., an amount well above the minimum monthly payment) and attempts to direct that the amount of the payment above the minimum be applied to the 22-25% APR portion of the balance, that request would be denied and the $1,000 payment would

be applied only to the 0% interest portion of his or her balance. To our knowledge, no bank even blends the payment to apply it proportionally to multiple balances at different rates. All payments are applied to lowest rate balances only.

- Collecting interest on previous balances that have already been paid by using complex interest rate and balance calculation practices such as the "two-cycle average daily balance method including new purchases" or the "trailing" or "residual" interest methods.
- Marketing deceptively advertised and extremely profitable add-ons of little or no value to the consumer, such as credit property and credit life insurance and identity theft credit monitoring.[18]

5. The Solution: Campuses Should Adopt Fair Campus Credit Card Marketing Principles

The results of this survey support the recommendations of the truthaboutcredit.org campaign launched by U.S. PIRG Education Fund to get colleges to adopt fair campus credit card marketing principles.

These principles are the following:

1. Prohibit use of gifts in marketing on campus. Credit card banks, issuers, and vendors shall be prohibited from offering anything of value, including food, clothing, sports equipment, travel vouchers, coupons, or equivalents, for purposes of soliciting an application for a credit card on campus. In addition, credit card banks, issuers and vendors are prohibited from offering financial support or other goods and services to any campus employee or campus department in exchange for marketing privileges.

2. Control passive marketing techniques. Posters and flyers shall comply with college posting regulations. Credit card banks, issuers and vendors shall be prohibited from leaving their marketing materials posted or displayed for longer than the posting regulations that govern the campus.

3. Block acquisition of student lists. Purchase (or sharing as a condition of exclusive marketing arrangements) of student lists shall be prohibited on campus. Credit card banks, issuers and vendors are prohibited from purchasing <u>or otherwise acquiring</u> lists of students of any kind currently enrolled at the campus. If state law on public records is subject to interpretation on whether detailed student information is a public record, schools should interpret it in favor of privacy. If state law makes student lists public records subject to full disclosure, then policymakers should consider changes. The purpose of open government laws is so that citizens can evaluate the effectiveness of their government, not so that students can be targeted by credit card companies. At a minimum, as an interim step, universities should only sell lists after students have opted-in to agree to have their names shared.

4. Stop group sponsorship. Student group or departmental sponsorship shall be prohibited. Credit card banks, issuers and vendors are prohibited from negotiating deals with student groups and other campus departments such that the student group or department will receive financial support or any other goods and services for applications collected on behalf of a credit card company.

5. Increase financial education. Financial education shall be enhanced on campus. Colleges and universities shall increase resources to support training and educational programs that increase students' consumer awareness and ability to navigate issues of student debt responsibly.

6. Credit card contractual terms and conditions that take advantage of students as consumers shall be discouraged. Colleges and universities should discourage specific credit card terms that take advantage of the consumer. Such practices include universal default – where a company will increase a consumer's interest rate based on her payment record on another account not associated with the card; hidden fees – where a company does not disclose certain fees for paying by phone or ordering a copy of a bill; mandatory arbitration – where the consumer gives up the

right to legal action against the company; changing contracts – where the company reserves the right to change all terms on the credit card at any time for any reason; and penalty interest rates above 20% that stay in place indefinitely.

6. Recommendations for Students and Other Credit Card Consumers:

Students and others who are overwhelmed by credit card marketing offers should contact the federally-mandated credit bureau solicitation "opt-out" list at 1-888-5-OPT-OUT (1-88-567-8688). Placing your name on this list will reduce the number of pre-screened credit card offers you receive. Adding your name to this list will not eliminate all offers, since if you use a credit card to buy something at a store, or fly on an airline, that store or airline has obtained your name from a business relationship, not a credit bureau.[19] Signing up for the list is reversible; if you decide you want credit card offers in your senior year or after you graduate, you can reverse your opt-out.

Students and alumni should ask their universities not to share your names with its credit card partners. Student governments should pass resolutions in support of this position and also in support of the other principles.

Pay off balances in full each month. Companies keep the minimum monthly payment low so that you'll extend your payment over time and rack up additional debt in interest.

If you can't pay off the card in full, then make the largest payment possible each month. Always pay more than the minimum required. Make your payments as early as possible every month (at least 7-10 days before it is due) to avoid late charges.

Watch for changing due dates. Call your credit card company and ask for a lower rate. It is cheaper for a credit card company to keep a customer than find a new one, so if you think that your interest rate is too high, call the number on your card and ask for a lower one. In a recent U.S. PIRG study, over half the consumers who called lowered their rates by a third or more.[20]

7. Conclusion

This report is based on a large survey of students on college campuses. Its findings on the demographics of student use of credit cards track those of other investigators:[21] the majority of students are using credit cards, credit card use increases with the number of years in college, students are using cards to pay for increasing costs of higher education and significant numbers of students have paid punitive credit card fees or are trapped in credit card debt.

The survey adds to the literature several important points:

- Credit card companies are marketing through a variety of channels to reach students and are adapting to marketing restrictions by using near-campus tables, telephone calls, direct mail marketing and exclusive affinity card arrangements designed to bypass marketing limits.
- Students strongly support the establishment of fair credit card marketing principles.

The report shows that banks are reaching deeper into college students' lives, to trap them deeper into debt. This is troubling, since the credit card debts are piled onto increasingly untenable student loan debts. High debt-loads make it hard for young consumers[22] to get a start in the working world and limit their opportunities to choose public interest careers.[23]

The U.S. PIRG Education Fund intends to work closely with college administrations on solutions on to the campus credit card trap. We are encouraged that many schools and academic associations have demonstrated recognition of the problem and a keen interest in pursuing real reform.

8. Methodology and Demographics:

Between October 2007 and February 2008, U.S PIRG campus staff and student volunteers approached random students in student unions and in popular campus locations asking them to take part in a survey. A total of 1584 students from 40 schools in 14 states participated (See Appendix 1).

Fifty-seven percent of participants reporting their gender were female and 43% male. Students were primarily single, fulltime undergraduates. We believe that the survey provides a representative sample of undergraduate attitudes toward credit card marketing.[24]

The survey was ethnically diverse. Seventy-one percent reported that they were white or Caucasian; 13% Asian; 8% Latino/Hispanic and 7% Black/African-American. By age, respondents were young and primarily undergrads. The average age was 21 years; the median 20 years of age. (See Appendix 2).

ENDNOTES

[1] "Although profitability for the large credit card banks has risen and fallen over the years, credit card earnings have been consistently higher than returns on all commercial bank activities." See "Report to the Congress on the Profitability of Credit Card Operations of Depository Institutions," July 2007, Federal Reserve Board of Governors. The 2007 and previous reports are available at http://www.federalreserve.gov/pubs/reports_other.htm (last visited 18 March 2008).

[2] For discussion of these tricks and traps, see testimony of this report's author, Ed Mierzwinski (and also that of Kathleen Keest of the Center for Responsible Lending) at a hearing of the Subcommittee on Financial Institutions and Consumer Credit of the U.S. House Financial Services Committee. (7 June 2007), available at http://www.house.gov/apps/list/hearing/financialsvcs_dem/press060707.shtml (last visited 17 March 2008).

[3] Another key target is certain immigrant populations who are good credit risks but have previously obtained their credit needs without credit cards. See, e.g., the report "Latino Credit Card Use: Debt Trap or Ticket to Prosperity," February 2007, Beatriz Ibarra, National Council of La Raza, available at http://www.nclr.org/content/publications/detail/44287/ (last visited 18 March 2008). Banks can also seek customers from populations who've previously had a credit card and lost it through default. There is a growing business of sub-prime, high fee credit cards. As one banker has noted, these consumers already "have a taste for credit."

[4] No reliable chart of state laws or individual school policies is available and compiling one was not the subject of this report. In 2007, at least 12 states considered legislation to regulate credit card marketing on campus (personal communication to author from Heather Morton, National Conference of State Legislatures, October 2007). For additional background, some sources include the following:
"College Students and Credit Cards," US General Accounting Office, Report GAO-01-773, June 2001, available at http://www.gao.gov/new.items/d01773.pdf (last visited 18 March 2008) and see "Graduating Into Debt: Credit Card Marketing on Maryland College Campuses," February 2004, Maryland PIRG and the Maryland Consumer Rights Coalition, available at http://www.uspirg.org/home/reports/report-archives/financial-privacy--security/financial-privacy--security/graduating-into-debt-credit-card-marketing-on-maryland-college-campuses (last visited 18 March 2008)

[5] "Selling Students into Credit-Card Debt" by Jessica Silver-Greenberg, Business Week Magazine, 1 October 2007, available at http://finance.yahoo.com/college-education/article/103663/Selling-Students-into-Credit-Card-Debt (last visited 18 March 2008).

[6] The comparison of state law proposals begins on page 255. See Creola Johnson, "Maxed Out College Students: A Call to Limit Credit Card Solicitations on College Campuses," New York University Journal of Legislation and Public Policy, Vol. 8, p. 191, 2005. The paper is also available for download at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=925234 (last visited 19 March 2008).

[7] See "Graduating Into Debt: Credit Card Marketing on Maryland College Campuses," February 2004, Maryland PIRG and the Maryland Consumer Rights Coalition, available at http://www.uspirg.org/home/reports/report-archives/financial-privacy--security/financial-privacy--security/graduating-into-debt-credit-card-marketing-on-maryland-college-campuses (last visited 18 March 2008).

[8] See "U of I, Iowa State use student data to sell credit cards," 23 September 2007, by Clark Kauffman, the Des Moines Register, and related stories in the series, available at http://www.desmoinesregister.com/apps/pbcs.dll/article?AID=/20070923/NEWS/709230350/1001 (last visited 18 March 2008).

[9] "U of I, UNI refuse Regents' request on credit cards," Clark Kaufmann, the Des Moines Register, 7 October 2007, available at http://www.desmoinesregister.com/apps/pbcs.dll/article?AID=/20071007/NEWS10/710070332 (last visited 18 March 2008), see sidebar). Note that in a subsequent public hearing, university officials disputed the newspaper reports: "Mr. Vince Nelson, Director, Alumni Services, UI, stated that the university limits campus credit card solicitations to students by offering exclusive marketing rights to one affinity credit card organization, thereby eliminating all other credit card solicitations, that the target audience for the program is alumni, not students, and that students comprise a very small percentage of cardholders." See Summary of the Hearings of the Government Oversight Committee of the Iowa Legislature at Page 5, hearing of 29-30 October, available at http://www.legis.state.ia.us/lsadocs/BriefOnMeetings/2008/BMRSN000.PDF (last visited 18 March 2008).

[10] See Appendix 3, undated sample credit card solicitation letter on behalf of Bank of America.

[11] See "Colleges' debit-card deals draw scrutiny," by Kathy Chu, page 1, USA Today, 17 March 2008, available at http://www.usatoday.com/money/industries/banking/2008-03-16-cover-college-debit_N.htm (last visited 18 March 2008). The story reports that New York Attorney General's investigation of credit card practices has been expanded to include debit card arrangements.
[12] "Inquiry Into Bank Practices." By Jonathan Glater, the New York Times, 1 March 2008.
[13] "Cuomo Testifies Before House Education Committee On Student Loan Industry." News release, Office of New York Attorney General Andrew Cuomo, 25 April 2007, available at http://www.oag.state.ny.us/press/2007/apr/apr25b_07.html (last visited 18 March 2008). "Cuomo also announced that two of the nation's largest banks, JP Morgan Chase and Bank of America have now agreed to Cuomo's Student Loan Code of Conduct in their student lending practices. JP Morgan Chase and Bank of America are the nations' third and fourth largest loan originators. Citibank and Sallie Mae, the two largest lenders, have already adopted the Code of Conduct."
[14] News release, 10 March, 2008, "Attorney General Announces Agreement with Potbelly," Office of Ohio Attorney General Marc Dann.
[15] Although the author has no citations for this thesis, he has been a participant at one "summit" between bankers, consumer groups and members of Congress, and an observer at a recent hearing, where senior officials of Citi and Chase made statements to the effect that merely being "in college" was a significant plus factor in their internal decision-making algorithm for granting card applications.
[16] For proposed bills specific to restricting credit card offers to college students, see, for example, The Student Credit Card Protection Act of 2007, introduced by Rep. Louise Slaughter (NY) in the House as S 3347 and Senator Herbert Kohl (WI) in the Senate as S 1925 and Credit Card Reform Act of 2008, S 2753, introduced by Senator Robert Menendez. The bills include various provisions to impose ceilings on credit limits on cards offered to youth, to limit the number of cards a young consumer can have, to require underwriting or income verification, and in some circumstances, require a cosigner.
[17] On the broader issue of unfair credit card practices in general, major bills have been introduced by Rep. Carolyn Maloney (NY), chair of a key House subcommittee (the Credit Cardholders Bill of Rights, HR 5244), Sen. Carl Levin, who chairs the Senate Permanent Subcommittee on Investigations (the Stop Unfair Practices in Credit Cards Act of 2007, S 1395), and many others. For explanations of the problems of credit card marketing, see especially the testimony of Professor Elizabeth Warren and other professors at a recent hearing (13 March 2008) on the Maloney bill, available at http://www.house.gov/apps/list/hearing/financialsvcs_dem/hr031308.shtml. Although anticipated testimony from several credit card victims was suppressed at the 13 March 2008 Maloney hearing, also see testimony of victim Wesley Wannamaker, accompanied by Alys Cohen of the National Consumer Law Center, at a hearing of the Permanent Subcommittee on Investigations, available at http://www.senate.gov/~govt-aff/index.cfm?Fuseaction=Hearings.Detail&HearingID=421 (all sites last visited 18 March 2008).
[18] Credit life, property or disability insurance is among the worst insurance values. Instead of paying several dollars each month for these questionable, but profitable products, consumers should make higher monthly payments. Identity theft credit monitoring may have some value in warning of past identity theft. Nevertheless, at $5-14/month, credit monitoring is extremely over-priced, in addition to often being deceptively marketed. A better solution for most consumers would be to obtain a free credit report from one of the three credit bureaus, every 3-4 months. Under law, each bureau must provide one free report annually on request, from the government-mandated shared website at annualcreditreport.com. Nothing requires consumers to obtain all three at once. Consumers can also fight identity theft before it starts by taking advantage of their rights to place security freezes on their credit reports.
[19] More information and opportunities to opt-out by phone or Internet is available at the Federal Trade Commission webpage http://www.ftc.gov/bcp/conline/pubs/credit/prescreen.shtm (last visited on 18 March 2008).
[20] Deflate Your Rate: How To Lower Your Credit Card APR, U.S. PIRG and MASSPIRG, March 2002, available at http://www.uspirg.org/home/reports/report-archives/financial-privacy--security/financial-privacy--security/deflate-your-rate-how-to-lower-your-credit-card-apr (last visited 18 March 2008).
[21] See, e.g., "Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends A study by Nellie Mae," May 2005, available at http://www.nelliemae.com/library/research_12.html; see "Generation Debt: Student Loans, Credit Cards, and Their Consequences," 27 November 2006, available at http://www.demos.org/pubs/yaes_web_debt.pdf; see "Variables Influencing Credit Card Balances. of Students at a Midwestern University," Mattson, Sahlhoff et al, NASFAA Journal Of Student Financial Aid, Vol. 34, No. 2, 2004, available at http://www.nasfaa.org/annualpubs/journal/Vol34n2/mattson.pdf; see "Credit Card Nation," by Robert Manning, Basic Books, 2000, abailable at http://www.creditcardnation.com; and see "The Credit Card Trap: How To Spot It, How To Avoid It," U.S. PIRG and MASSPIRG, 1 April 2001, available at

http://www.uspirg.org/home/reports/report-archives/financial-privacy--security/financial-privacy--security/the-credit-card-trap-how-to-spot-it-how-to-avoid-it (all sites last visited 19 March 2008).

[22] See "Strapped: Why America's 20 and 30 Somethings Can't Get Ahead," Tamara Draut, Random House, January 2007. Draut is director of the Demos (note *supra*) Economic Opportunity Program. Available at http://www.strappedthebook.com/ (last visited 19 March 2008).

[23] See "Paying Back, Not Giving Back: Student Debt's Negative Impact on Public Service Career Opportunities," 1 April 2006, U.S. PIRG Higher Education Project, available at http://www.uspirg.org/home/reports/report-archives/affordable-higher-education/affordable-higher-education-reports/paying-back-not-giving-back--student-debts-negative-impact-on-public-service-career-opportunities (last visited 19 March 2008).

[24] The survey may, however, understate average credit card debt. It is a known fact that consumers tend to under-report debt in personal surveys. Personal communication by the author with Steve Brobeck, Ph.D., executive director, Consumer Federation of America.

APPENDIX 1: Schools Where Students Were Surveyed, By State

	State
Arizona State University	AZ
University of Arizona	AZ
UC Davis	CA
UC Berkeley	CA
UC Irvine	CA
UC Riverside	CA
UC Santa Barbara	CA
UC Santa Cruz	CA
UC San Diego	CA
University of Southern California	CA
University of Colorado at Boulder	CO
University of Colorado at Denver (Metro)	CO
Iowa State University	IA
Indiana University	IN
Berkshire Community College	MA
Bristol Community College	MA
Fitchburg State	MA
Mass School of Pharmacy	MA
Mass College of Art	MA
Mass Bay Community College	MA
Middlesex Community College	MA
Mass College of Liberal Arts	MA
North Shore Community College	MA
UMASS Amherst	MA
UMASS Boston	MA
UMASS Dartmouth	MA
Westfield State	MA
Worcester State College	MA
University of Maryland at College Park	MD
University of Maine	ME
University of Southern Maine	ME
St. Louis Community College Meramec	MO
Rutgers University	NJ
University of New Mexico	NM
Eastern Oregon University	OR
Southern Oregon University	OR
The Evergreen State College	WA
University of Washington	WA
University of Wisconsin at Madison	WI
University of Wisconsin at Milwaukee	WI

Appendix 2: Demographics of Respondents	
Gender	
Male	43%
Female	57%
Age	
Average Age	21
Median Age	20
Single or Married	
Married	5%
Single	95%
Full or Parttime Student	
Fulltime student	92%
Parttime	8%
Race/Ethnicity	
White/Caucasian	71%
Black/African-American	7%
Latino/Hispanic	8%
Native American	2%
Asian	13%
Other	4%
Multiple responses to Race/ethnicity allowed	

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THE UNIVERSITY OF IOWA
Alumni Association
your gateway to the university

APPENDIX 3
Campus Credit Card Trap

OUTSTANDING FINANCIAL BENEFITS FOR STUDENTS

- *Immediate savings with no annual fee.*

4.9%

- *Even more savings with a low introductory 4.9% Annual Percentage Rate (APR) on cash advance checks and balance transfers until November 2007.*
- *Valuable credit card information at www.smartcredittips.com*
- *Secure online account access and electronic bill payment service.*
- *Around-the-clock fraud protection.*
- *Help when you need it. Toll-free, 24 hours a day.*

REPLY BELOW TO REQUEST YOUR CREDIT CARD TODAY OR CALL TOLL-FREE 1.866.875.6252

A NEW OPPORTUNITY ESPECIALLY FOR STUDENTS. SIMPLY RETURN THE FORM BELOW TO REQUEST YOUR NO-ANNUAL-FEE UNIVERSITY OF IOWA MASTERCARD® CREDIT CARD.

Dear Sample A. Sample:

Imagine the convenience of being able to purchase supplies for your classes, without worrying about carrying a lot of cash. You could pay for your books—or get quick cash in an emergency—and put it on one easy-to-use account.

That's the kind of flexibility every student can appreciate . . . and it can be yours with the University of Iowa credit card. This unique financial tool can help you save money, simplify your life, build a good credit history, and show your pride every time you make a purchase. Simply complete the form below to apply for your card today or call toll-free 1.866.875.6252.

Great Opportunities. Great Resources. Establishing credit is not without risks. We recognize that there may be challenges along the way. That's why Bank of America is dedicated to giving you the tools you need to learn to manage credit wisely. Check out **www.smartcredittips.com** for information and handy budgeting tools. And look for a brochure with your new Bank of America* credit card that'll help you understand what you need to do to maintain and build your credit for the future.

Plus, this credit card program offers a customized credit line and no annual fee. You'll also appreciate the low Introductory 4.9% APR† for cash advance checks and balance transfers until November 2007. This Introductory APR applies only to cash advance checks and balance transfers, and may end sooner if your account is paid late or if your balance exceeds your credit limit. For retail purchases, you'll also enjoy a great low APR right from the start. (Please note that payments are applied first to balances with the lowest APR and balance transfers* and cash advance checks are subject to a 3% transaction fee, no less than $10.)

(over, please)

†Please see the reverse side and the enclosed Disclosure Summary for rate, fee, and other cost information. All terms, including the APRs and fees, are subject to change at any time, for any reason, in accordance with the Credit Card Agreement and applicable law.

▼ Detach here

YOUR PERSONAL REQUEST FORM

YOUR SCHOOL *Please print clearly in black or blue ink.*

School ____________
Campus ____________
Major field of study ____________
Graduation Date ____________
Class: ☐ Freshman ☐ Sophomore ☐ Junior ☐ Senior ☐ Graduate

Indicate your preferred mailing address: *(Please print alternate address clearly on this form.)*
☐ The address above ☐ The street address at right‡ ☐ An alternate address

YOUR FINANCES

Source of Personal Income‡‡ (check all that apply): ☐ Parent(s) ☐ Part-time job ☐ Full-time job ☐ Other

‡‡ Alimony, child support, or separate maintenance income need not be revealed if you do not wish it considered as a basis for repayment.

Total Annual Personal Income $ ____________
Employer (if applicable) ____________
Position ____________ ☐ Current ☐ Future ☐ Summer

STICON_VR49 0507

Please complete and mail this application for the University of Iowa MasterCard® credit card.

X ____________ Date ___/___/___

BY SUBMITTING THIS APPLICATION I AGREE TO THE CONDITIONS ON THE REVERSE SIDE OF THIS FORM, THE TERMS OF THE DISCLOSURE SUMMARY, AND TO BE BOUND BY EACH OF THE TERMS OF THE CREDIT CARD AGREEMENT, INCLUDING ARBITRATION.

Print your name as you would like it to appear on the card.‡

Social Security Number‡ ____________ Birth Date‡ ___/___/___
Mother's Maiden Name or Password (for security purposes) ____________
Your Permanent Home Address (No P.O. Boxes)‡ ____________
City ____________ State ______ ZIP ____________
Monthly Housing Payment $ ____________ Are you: ☐ Homeowner ☐ Renter ☐ Living in campus housing ☐ Living with parents
Resident Status: U.S. Citizen or Permanent Resident? ☐ Yes ☐ No
Permanent Home Phone (____) ____________
School Phone (____) ____________ Cell Phone (____) ____________
E-mail Address (optional—see reverse) ____________
☐ Yes, keep me informed via e-mail about special marketing offers from Bank of America.

‡ Federal law requires us to collect and verify this information. If the address we mailed to was not a street address, we are required to obtain a street address.

The Benefits and Services You Deserve. You'll be glad to know you can reach a Bank of America credit card customer satisfaction specialist any time you need help—24 hours a day, 7 days a week. Not only that, but you're in line for all kinds of quick, secure online tools to assist with managing your credit card. For example, www.bankofamerica.com lets you view statements and recent transactions online, schedule electronic payments for your Bank of America bill, and more.

Use your credit card at school and at millions of locations around the world. And if it's lost or stolen, you're protected against liability for fraudulent charges when you report the loss immediately.

Don't miss this unique opportunity to show your University of Iowa pride, while you enjoy truly outstanding credit card benefits and services. Request your credit card today by completing your Personal Request Form or apply online at www.newcardonline.com (priority code XXXXXX).

Sincerely,

Vince Nelson
President, UI Alumni Association

P.S. Bank of America helps support the University of Iowa with every account opened, and for every purchase made with the card. All at no additional cost to you. Request your card today.

SUMMARY OF ANNUAL PERCENTAGE RATES

†The Variable Annual Percentage Rate (APR) for Purchases, Balance Transfers, and Cash Advance Checks is currently 18.24%. The APR for Bank and ATM Cash Advances is a variable rate, currently 24.24%. The current Introductory APR for Balance Transfers and Cash Advance Checks is 4.9% (see Disclosure Summary for duration of Introductory APR). Your Introductory APR is fixed, meaning that the Introductory APR will not be changed during the Introductory period. Keep in mind if your payment is late or your balance exceeds the credit limit, the Introductory APR will end before the advertised expiration date. A Default APR up to 29.99% may be applied to your account for all Purchases and Cash Advance balances if your payment is late or your balance exceeds the credit limit. Default APRs are not variable rates. Transaction fee for Bank and ATM Cash Advances is 3% (min. $10). Transaction fee for purchases of wire transfers and other cash equivalents is 3% (min. $10). Transaction fee for Balance Transfers and Cash Advance Checks is 3% (min. $10, max. $75).

The Variable APRs for your account may change in accordance with the Variable-Rate Information accompanying your card. In addition, we reserve the right to change the APRs, fees, and other terms of the account at any time.

If your account has balances with different APRs, payments are applied to the balance with the lowest APR before any payments are applied to balances with higher APRs. This means that balances with higher APRs are not reduced until balances with lower APRs have been paid off.

The number of days between your statement Closing Date and your Payment Due Date (the grace period) may vary from one Billing Cycle to another.

The enclosed Disclosure Summary and your Credit Card Agreement contain additional details about the rates, fees, other costs, and terms of the account.

SD-V-AD.0906

***BALANCE TRANSFERS.** If the total amount you request exceeds your credit line, we may either send full or partial payment to your creditors in the order you provide them to us or we may send you Cash Advance Checks. Allow at least 2 weeks from account opening for processing. Continue paying each creditor until the transfer appears as a credit. Balance Transfers incur finance charges from the transaction date. Balance Transfers are subject to transaction fees in the amount of 3% of the transaction (min. $10). If you have a dispute with a creditor and pay that balance by transferring it to your new account, you may lose certain dispute rights. Balance Transfers may not be used to pay off or pay down any account issued by FIA Card Services, N.A. BT.0107

Certain restrictions apply to each benefit. Details accompany new account materials. PF.CR.0307

CONDITIONS

I have read this application, and everything I have stated is true. I am at least 18 years of age or I am at least 21 years of age if a permanent resident of Puerto Rico. I authorize FIA Card Services, N.A. (hereinafter "you" or "your") to review my credit and employment histories and any other information in order to approve or decline this application, service my account, and manage your relationship with me. I consent to your sharing of information about me and my account with the organization, if any, endorsing this credit card program. I authorize you to share with others, to the extent permitted by law, such information and your credit experience with me. In addition, I may as a customer later indicate a preference to exempt my account from some of the information-sharing with other companies ("opt-out"). If I accept or use an account, I do so subject to the terms of this application, the "Details of Rate, Fee, and Other Cost Information" and the Credit Card Agreement as it may be amended; I also agree to pay all charges incurred under such terms. Any changes I make to the terms of this application will have no effect. I accept that on a periodic basis my account may be considered for automatic upgrade at your discretion. I consent to and authorize you, any of your affiliates, or your marketing associates to monitor and/or record any of my phone conversations with any of your representatives. PR.0107

We use your e-mail address to communicate with you about your application and/or account. See the Bank of America Privacy Policy for additional information. The Privacy Policy is available at bankofamerica.com and accompanies the credit card.

If the enclosed postage-paid envelope has been misplaced, send application to: Bank of America, PO Box 981052, El Paso, TX 79998-9935. BAC.ABP.EMAIL.0906

This credit card program is issued and administered by FIA Card Services, N.A. Any account opened in response to this application shall be governed by the laws of the State of Delaware. Travel planning services are provided to customers by an independently owned and operated travel agency registered to do business in California (Reg. No. [illegible]), Ohio (Reg. No. [illegible]), Washington ([illegible]) and other states, as required. MasterCard is a federally registered service mark of MasterCard International Inc., and is used by the issuer pursuant to license. Platinum Plus is a trademark of FIA Card Services, N.A. Bank of America is a registered trademark of Bank of America Corporation.

[illegible]